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Meeting of Heads of Secretariats of
Economic Co-operation and Integration
Groupings of Developing Countries
Second session
Geneva, 28 January 1991
Item 3 of the provisional agenda

PROVISIONAL AGENDA AND ANNOTATIONS TO THE PROVISIONAL AGENDA

I. Provisional agenda

1. Opening of the session
2. Election of officers
3. Adoption of the agenda and organization of work
4. Review of implementation of the recommendations of the Meeting of Heads of Secretariats of Economic Co-operation and Integration Groupings of Developing Countries adopted at its first session
5. Changing perspectives of the integration process: policy issues for the 1990s
6. Integration groupings as focal points for enhancing regional linkages and promoting interregional co-operation
7. Informal Contact Group of Secretariats of Economic Co-operation and Integration Groupings (ICGS)
8. Place and date of the third session of Meeting of Heads of Secretariats
9. Other business
10. Adoption of the report of the Meeting.

GE.90-53209

II. Annotations to the provisional agenda

Item 1: Opening of the session

The Meeting will be opened on the morning of Monday, 28 January 1991, at the Palais des Nations, Geneva, by the Secretary-General of UNCTAD or by his representative.

Item 2: Election of officers

It is suggested that the Meeting elect a new Bureau, consisting, as at its earlier sessions, of a Chairman, a Vice-Chairman and a Vice-Chairman-cum-Rapporteur.

Item 3: Adoption of the agenda and organization of work

The provisional agenda in section I above was prepared by the UNCTAD secretariat in the light of developments since the first session of the Meeting of Heads of Secretariats.

The following tentative schedule of work is proposed, subject to any changes which may prove necessary in the light of developments at the second session:

Monday, 28 January 1991	Morning Afternoon	Items 1, 2, and 3 Item 4
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Friday, 1 February 1991	Morning or Afternoon	Item 10

Item 4: Review of implementation of the recommendations of the Meeting of Heads of Secretariats of Economic Co-operation and Integration Groupings of Developing Countries adopted at its first session

The first session of the Meeting of Heads of Secretariats of Economic Co-operation and Integration Groupings of Developing Countries adopted a set of measures and actions for the revitalization of the integration process among developing countries.[1] The Heads of Secretariats may wish to make written or oral reports on actions taken by their groupings in the context of the recommendations made at their last meeting.

A document, entitled ***Economic Integration among Developing Countries: Trade Co-operation, Monetary and Financial Co-operation and Review of Recent Developments in Major Economic Co-operation and Integration Groupings of Developing Countries (TD/B/C.7/AC.3/10)***; and an index covering membership and objectives of major economic co-operation and integration groupings of developing countries (TD/B/C.7/AC.3/3/Rev.1) are being made available to the second session of the Meeting to assist the Meeting in the consideration of this item. The document spells out recent initiatives taken (a) to strengthen and consolidate trade and trade-related integration programmes, and (b) to strengthen monetary and financial co-operation within the various integration groupings, in particular their clearing and payment arrangements. The UNCTAD secretariat will also make an oral statement on efforts to follow up on the recommendations ad-

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1 See report entitled "Report of the First Session of the Meeting of the Heads of Secretariats of Economic Co-operation and Integration Groupings of Developing Countries" (TD B C.7 94).

dressed to it to formulate, in co-operation with other relevant international organizations, a project for UNDP financing aimed at the promotion of co-operation among economic groupings of developing countries.[2]

Item 5: Changing perspectives of the integration process: policy issues for the 1990s

The secretariat will submit a report entitled ***Structural Adjustment, the Evolving International Trading System and Economic Integration among Developing Countries: Issues for the 1990s (TD/B/C.7/AC.3/9)*** to assist the meeting in the consideration of this item. The report focuses in particular, on structural adjustment programmes in member countries of groupings and the implications for integration goals and objectives; tendencies towards the strengthening and enlargement of regional economic blocs, especially among developed countries, and the lessons to be learned by economic groupings of developing countries; and measures for revitalizing the economic integration process.

Item 6: Integration groupings as focal points for enhancing regional linkages and promoting interregional co-operation

In the light of the discussions which will have taken place under items 4 and 5 above on the experiences of the various groupings and key issues for the integration process in the 1990s, the Meeting may wish to formulate approaches and measures for enhancing regional linkages and promoting greater interregional co-operation among groupings of developing countries in specific areas.

Item 7: Informal Contact Group of Secretariats of Economic Co-operation and Integration Groupings (ICGS)

The UNCTAD secretariat will make an oral statement on past activities of the ICGS in the light of which the Meeting may wish to consider the future role of the ICGS.

Item 8: Place and date of the third session of Meeting of the Heads of Secretariats

The Meeting may wish to give consideration to dates and a venue for its third session.

Item 9: Other business

The meeting may wish to consider any other business.

Item 10: Adoption of the report of the Meeting

The Meeting may adopt its report and, in the light of the practice followed earlier, authorize the UNCTAD secretariat to submit the report to the next session of the Committee on Economic Co-operation among Developing Countries for its consideration.

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2 See Part III, Section C (6) of document TD/B/C.7/94.

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Meeting of Heads of Secretariats
of Economic Co-operation and Integration
Groupings of Developing Countries
Second session
Geneva, 28 January 1991
Item 5 of the provisional agenda

STRUCTURAL ADJUSTMENT, THE EVOLVING INTERNATIONAL TRADING SYSTEM AND ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES: ISSUES FOR THE 1990s

Report by the UNCTAD secretariat

GE.90-53143

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Introduction

1. Economic co-operation and integration groupings of developing countries suffered considerable strain in trying to promote their objectives during the crisis period of the 1980s. Their mechanisms for co-operation were either not effective in withstanding the pressures of the international crisis or else encountered great difficulties in application. Most of the economic groupings, therefore, experienced serious setbacks. These included: a systematic decline in their intra-grouping trade; a slowdown or reversal in their trade liberalization process; acute financial difficulties which have inhibited the functioning of their secretariats and delayed the implementation of economic co-operation programmes and projects; and a drastic decline in the volume of transactions channelled through the multilateral clearing and payments arrangements and, in several cases, suspended operations.

2. Fortunately, the process of economic integration in the developing countries was not totally halted. In fact, the integration process has now entered a period of revitalization. Many economic groupings have been taking measures to reactivate and strengthen their economic co-operation and integration efforts. These measures have focused, to a large extent, on arresting and reversing the setbacks to the integration process. This is particularly so for the revival of intra-grouping trade as well as clearing and payment arrangements. A considerable effort has also been devoted to creating mechanisms to facilitate contacts, consultation and negotiations with, and increasing access to, international sources of financing for economic co-operation and integration programmes and projects.

3. The first session of the meeting of Heads of Secretariats of Economic Co-operation and Integration Groupings of Developing Countries in March 1989 had identified some priority areas where new initiatives were required for revitalization of the integration process among developing countries so as to speed the evolution of integrative processes that were more stable and lasting.

4. It is becoming apparent, however, that the revitalization of the economic integration process requires new strategies in the face of two major challenges. One challenge devolves from the adjustment process in member States of economic groupings. Often this adjustment process tends to deflect macro-economic policies from long-term development and integration objectives towards narrower, short-term goals. Resolving this question is an important challenge in the light of the necessity for structural adjustment in a growing number of developing countries. The second challenge arises from the resurgence of interest in the developed market-economy countries towards consolidation and widening of their internal economic space as a key element in enhancing trade and development. These factors will have a major impact on the international trading system.

I. Adjustment and economic integration

5. The 1980s have been aptly described as the "lost decade" for the developing countries. Barring the expansion that occurred in the newly industrialized countries of south-east Asia, the large majority of the developing countries during this decade suffered continuous decline, in terms of most socio-economic indicators. There were profound changes in the early 1980s in developing countries. These included: the external debt crisis and associated serious macro-economic disequilibria such as persistent balance-of-payments difficulties, inflation and economic stagnation and decline.

6. The developing countries which suffered macro-economic imbalances have had to undertake adjustment measures. Such measures mainly focused on drastic import cuts and contractions in domestic demand, the aim being restoration as rapid as possible of debt-servicing capacity and balance-of-payments equilibrium. Nevertheless, at the end of the 1980s, most developing countries pursuing structural adjustment, including those which are members of integration groupings, have continued to experience serious external debt and balance-of-payments difficulties. The orthodox structural adjustment policies appear to have been insufficient to deal with the economic problems encountered.

7. A redefinition of macro-economic policies and the reordering of national priorities to match financial resources may often entail great social costs, not to mention relegation of integration objectives to a secondary level. Instead of focusing on achieving consistent mutually beneficial economic policies in their integration framework, the States' members of integration groupings

have been preoccupied by the need to deal with the requirements imposed by structural adjustment.

8. The intra-group trade of integration groupings and their regional trade liberalization schemes have been the areas most affected by the adjustment process.[1] Measures intended to restore balance-of-payments equilibrium including protectionist barriers against imports were intensified. In many cases such measures were applied generally, across-the-board, without regard to integration "standstill agreements." Many member States of integration groupings were also compelled to make extensive use of "safeguard" clauses to protect their balance-of-payments, thus inhibiting the effectiveness of trade liberalization schemes. Contraction in domestic demand also impinged on overall imports, including those from partner countries in the integration groupings, despite the existence of regional preferential trading arrangements.

9. A number of the developing countries at a later stage also adopted IMF adjustment programmes. The pronounced short-term nature of these adjustment programmes aimed at restoring as quickly as possible developing countries countries' debt-servicing and balance-of-payments capacities has diverted attention from long-term development and integration goals. For instance, the overall trade liberalization requirements of IMF structural adjustment programmes adopted without regard to the regional preferential trading schemes of developing countries have led to an erosion of the latters' preferential margins.

10. It is clear that divergent or conflicting approaches taken by member States of economic groupings in tackling macro-economic imbalances are likely to undermine the smooth, efficient implementation of their integration objectives. Hence the need for economic groupings to develop new ways and means aimed at enhancing joint consultation, co-ordination and harmonization of actions and policies where there are common grounds (structural adjustment, monetary policy, trade policy, response to developed market-economy trading groupings).

11. The promotion of greater co-ordination and harmonization between national structural adjustment policies and regional integration policies is a particularly important issue. Such co-ordination and harmonization is necessary so as to limit the possible disruption of the integration process that may arise from possible divergences between integration policies and structural adjustment policies. The Andean Group, CACM, ECOWAS and the MRU are some of the economic groupings which have begun to consider and promote greater co-operation among their member States, centred on the design and implementation of major macro-economic policies such as trade, monetary and industrial policies. The international community is also according increasing recognition to the role of regional economic integration in promoting viable macro-economic reorientation and structural changes. The European Economic Community (EEC), through the new Lomé IV Convention, has laid emphasis on lending support to a regional approach to structural adjustment. International financial institutions and agencies of the United Nations are also advocating a long-term approach to structural adjustment in which economic integration plays a role.

12. In the case of international financial institutions and other donors, not only should they become more aware of the integration commitments of developing countries but they should also endeavour to ensure that the structural adjustment policies which they are inducing countries to follow are consistent with viable overall integration objectives and, that in areas where conflicts are likely to occur, corrective measures are taken.

13. A related aspect of this orientation is the need for integration groupings to maintain continuous dialogue with industrialized countries and their regional economic (and trading) groupings. This is particularly important for issues of common interest such as trade, technical assistance and other matters. The experience of ASEAN with its "dialogue partners" such as Australia, Canada, EEC and Japan bears out this point to some extent. The exact modalities of such involvement, however, must be carefully worked out between the parties concerned.

II. The changing international trading environment and economic integration

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1 For an in-depth discussion see UNCTAD, ***Trade expansion among developing countries: constraints and measures to overcome them***, (TD B 1260, 9 August 1990), chapter III.

14. In the evolving world trading situation, the real winners will be those countries which are able to keep pace with technological development, creating and maintaining efficient, competitive production structures which would allow them to respond adequately to changing trends in demand in the world markets.

15. The industrialized countries have responded to this challenge well ahead of the developing countries as they have already adopted new policy measures and strategies. In major industrialized countries, a prominent aspect of this response has been a resurgence of interest in consolidation and further enlargement of their economic space so as: to stimulate, protect and support the development of their technological capabilities; to encourage efficient, competitive industries; and to engender greater trade expansion. This policy thrust has found concrete expression in the emergence and widening of economic arrangements among developed market-economy countries. The European Economic Community programme for the unification of its internal market by 1992 and the Canada-United States Free Trade Agreement are two significant examples of such arrangements. Similarly, the countries concerned have also launched new initiatives aimed at promoting trade as well as policy consultation and co-ordination with other countries in their region, covering both developed and developing countries. The Asia/Pacific Economic Co-operation (APEC) process launched by Australia in November 1988 and the new United States initiative, "Enterprise for the Americas," which was announced in June 1990, both reflect this new perception of international co-operation on development issues.

16. The European integration process, in particular, has become a major issue for developing countries and their integration groupings owing to the uncertainties surrounding its impact *vis-à-vis* developing countries and on international trade and development in general.[2] A single European market with removal of internal trade barriers is expected to increase investment, employment and growth within the Community which will boost its overall aggregate demand. This move should create trade opportunities for third parties as well. However, the enhanced efficiency in production and competitiveness within the EEC may deflect trade away from "outside" imports towards internal partners. The complete integration into the EEC of Spain and Portugal by 1996 may enhance this trade diversion effect as these countries have export structures competitive with many developing countries. Whether or not the share of imports into the EEC originating from third parties is eroded will depend on the net effect of trade creation and trade diversion. The impact will also be affected by the income elasticities of demand for imports; in general, primary products have low income elasticities and thus for such products the trade-creation and trade-diversion effects will be modest. For manufactured products, however, as they normally have high income elasticities, the trade-creation and trade-diversion effects will be greater. The level of EEC imports from third parties will also depend directly on whether the existing preferential trading arrangements which the EEC now has with developing countries–such as those in the Mediterranean region (Algeria, Morocco, Tunisia) and the ACP Group of countries–are replaced by more restrictive or more liberal arrangements. Similar uncertainties apply to the liberalization of capital flows within the EEC.[3] These factors will affect the export potential of regional groupings among developing countries.

17. The developing countries individually, as well as within their economic groupings, should therefore begin to consider how to respond adequately to the opportunities and possible incursions posed by consolidation and widening of economic and trading arrangements among developed market economies. It is encouraging to note that several integration groupings, such as ASEAN, CARICOM and ECOWAS, have organized seminars where the impact of the EEC 1992 programme on their subregions and their response could be discussed.

III. Revitalization of the economic integration process: issues for the 1990s

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2 For a discussion on the implications of the EEC 1992 Programme and the Canada-United States Free Trade Agreement see, UNCTAD, ***Implications of bilateral arrangements and regional economic integration, especially those which have a major impact on global trade, in particular on the trade and development of developing countries***, (TD B 1242, 16 January 1990). See also for detailed analysis on the European integration process UNCTAD, ***Trade and Development Report 1990***, (United Nations publication, sales No. E.90.II.D.6), chapter III.

3 Most developing countries are also apprehensive about the possible diversion of OECD development assistance away from them to supporting the recent reform process in Eastern Europe.

18. In the light of the above, the following considerations appear to have an important bearing on the choice of adequate policy responses:

(a) Economic integration is no longer being considered as a mere development option in developing countries. There is a growing recognition, strengthened by the integration process in the North, that such integration is a real necessity for the economic survival of developing countries and a key element of successful international competitiveness and trade performance. For developing countries, the need for more substantial and sustained collective efforts within integration frameworks cannot be over-emphasized; it is essential both for acquiring technological capabilities and for designing competitive, efficient production structures;

(b) Traditional integration strategies, based on inward-oriented, import substitution industrial development, will have to be reappraised and reconciled with the new requirements for becoming competitive on an international scale. Regional economic integration should be increasingly seen as an instrument to support medium- to long-term development strategies consistent with increasing the participation of developing countries in the world economy; and

(c) The pace of the integration process in the North has helped to instil a sense of urgency regarding revitalization and consolidation of integration processes in the South. Most economic groupings have rededicated themselves to their integration objectives; so as to meet their obligations under integration treaties, several have established target dates which have some correspondence with the entry-into-effect of the EEC 1992 programme.

19. The need on the part of economic co-operation and integration groupings to continue to devote serious attention to the tasks identified by the meeting of Heads of Secretariats at their first session appears indispensable. Added impetus must be given to: (a) strengthening the link between national policies and integration objectives; (b) strengthening of payment arrangements and financial underpinnings of the integration process; (c) co-operation among integration groupings at the regional and inter-regional levels; (d) promotion of a greater role for enterprises (public and private) in the integration process; (e) increased attention to promotion of integration in production; and (f) incorporation of services activities within the schemes of economic co-operation and integration.[4]

20. In addition, some of the priority tasks vital to consolidating the foundation of the integration process in developing countries include:

(a) Development of production-investment co-operation. The basic idea is that some of the principal gains from economic integration will come from investment in new productive activities to take advantage of complementarities in production structures of partner countries and new trading opportunities arising from the liberalization of subregional markets. However, in many integration groupings, efforts to expand and diversify production through joint or harmonized programmes have been meagre. The disconnection between trade liberalization and co-operation on production has been one factor hindering the realization of gains from economic integration. Collaboration on developing production must thus be pursued in tandem with trade liberalization. Likewise, emphasis should be placed on developing and implementing subregional industrial co-operation policies and projects to expand the industrial configuration of the subregion. In addition, the promotion of patterns of industrial specialization between small- and medium-scale enterprises and of intra-branch specialization should be encouraged. Another area deserving special attention is the encouragement and development of the enterprise sector, in view of its importance in promoting business activities and in attracting foreign investments. Thus, there is a need for expansion of the entreprise sector, where it is weak; with regard to subregional industrial co-operation projects, there should be greater selectivity in direct participation by governments as well as stricter adherence to commercial practices and fuller accountability by para-statal enterprises. In the past, regional integration schemes had emphasized large, ambitious joint ventures. Experience suggests, however, that inter-firm co-operation in evolving production or services ventures has a

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[4] See *Report of the First Session of the Meeting of Heads of Secretariats of Economic Co-operation and Integration Groupings of Developing Countries*, (UNCTAD, TD B C.7 94, 11 April 1989).

better chance of success. So as to stimulate the growth of such inter-firm ventures, supportive policies and incentives are also needed. These include: (i) tariff and fiscal advantages (tax "holidays"); (ii) special facilities for repatriation of profits; (iii) better access to local capital markets; and (iv) more generous allowance for equity participation by foreign investors in the integration projects;

(b) Revival of the traditional area of integration–trade liberalization–as a principal building block and stimulus for intra-regional trade expansion and industrial development. This requires, *inter alia*: (i) stronger action in the area of non-tariff barriers to intra-grouping trade within regional trade liberalization schemes; (ii) greater product coverage and expansion of preferential margins of trade liberalization schemes; (iii) promotion of more effective participation by the relatively lesser developed countries in trade liberalization schemes and other co-operation projects; and (iv) greater involvement of the enterprise sector in trade liberalization programmes and linkage of trade liberalization with joint venture schemes;

(c) Close consultation and dialogue within integration groupings on a wide range of policies relating to monetary and financial co-operation, relevant to enhancing the integration process and accelerating growth and development of member States of integration groupings. These concerns should have high priority. In this regard, the revitalization and strengthening of trade financing and payments arrangements remain of utmost importance. If countries members of subregional clearing houses are prepared to implement a more flexible exchange rate, revised multilateral payments schemes would represent the best solution to the current payments difficulties of intra-grouping trade. This solution would require: (i) finding some means of settling outstanding intra-regional debt; and (ii) making conditional any refinancing arrangement on various up-front macro-economic policy adjustments. New revised clearing-houses could be created gradually, initially including only the regional net creditors, then successively incorporating additional member countries as soon as the requisite policy adjustments had been implemented;

(d) Other important aspects of monetary and financial co-operation include, in particular, removal of exchange restrictions and convergence of exchange rate policies among member States of individual integration groupings and the promotion of investment as a means of boosting production of exportables within integration groupings. Domestic savings available for investment among member States of most integration groupings are extremely low. The investment climate could be improved through the harmonization of investment laws, the development of viable national and subregional capital markets as well as incentives and inducements to encourage foreign direct investment, particularly in the manufacturing sector and, possibly, through joint ventures. The integration process would be consolidated to the extent that there is a flow of intermediate products regionally for the manufacture of final products for global markets. This flow is a striking feature of East Asian development, which stands as a model that could with advantage be emulated in other regions;

(e) Co-ordination of tax reform is another important consideration. The majority of developing countries are dependent on trade taxes. Any tariff reduction which could be envisaged in reforms leading to trade liberalization is likely to result in reductions in government revenues. In order to avert increasing disequilibria and to create a more stable fiscal basis, governments will need to find alternative revenue sources. In this respect, taxes on income and on consumption expenditures are generally considered the most efficient options. However, a uniform tax is not always feasible, and may conflict with development objectives. In such cases, applying selective taxes is preferable, but this too may require regional co-ordination; and

(f) In the area of services, particular attention needs to be paid to improving communication channels among countries of individual integration groupings. The absence of quick transmission of information impedes business and banking operations and acts as a brake on increasing trade exchanges within integration groupings. The lack, or poor quality, of transport infrastructure regionally has also hindered the movement of goods between member States of integration groupings. The weakness of inland transportation networks in developing countries has often made regional transport of goods costly and uneconomical. Likewise, ocean-going transport may be problematic as it is often biased to-

wards serving the developing countries' links with developed countries. Regional transportation policies should be designed in such a way as to develop regional inland and ocean transportation links in support of trade expansion within integration groupings.

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Meeting of Heads of Secretariats of
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Second Session
Geneva, 28 January 1991
Item 4 of the provisional agenda

ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES: TRADE CO-OPERATION, MONETARY AND FINANCIAL CO-OPERATION AND REVIEW OF RECENT DEVELOPMENTS IN MAJOR ECONOMIC CO-OPERATION AND INTEGRATION GROUPINGS OF DEVELOPING COUNTRIES

Report by the UNCTAD secretariat

GE.90-53176

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List of abbreviations

ACC	Arab Co-operation Council
ACU	Asian Clearing Union
AMU	Arab Maghreb Union
ALADI	Latin American Integration Association
ASEAN	Association of South-East Asian Nations
CMCF	CARICOM Multilateral Clearing Facility
CACH	Central America Clearing House
CACM	Central American Common Market
CARICOM	Caribbean Community
CEAO	West African Economic Community
CEEAC	Economic Community of Central African States
CEPGL	Economic of the Great Lakes Countries
ECOWAS	Economic Community of West African States
EEC	European Economic Community
GCC	Co-operation Council for the Arab States of the Gulf
MRU	Mano River Union
PTA	Preferential Trade Area for Eastern and Southern African States
SAARC	South Asian Authority for Regional Co-operation
SADCC	Southern African Development Co-ordination Conference
SELA	Latin American Economic System
UDEAC	Central African Customs and Economic Union
WACH	West African Clearing House

INTRODUCTION

1. This report reviews recent developments in major economic co-operation and integration groupings of developing countries. The purpose of the review is twofold; it is firstly intended to facilitate an exchange and sharing of experiences of the various economic groupings which could lead to a preliminary assessment of the progress made towards the implementation of the recommendations and measures adopted by the first session of the meeting of Heads of Secretariats of Economic Co-operation and Integration Groupings of Developing Countries in March 1989.[1] The review is secondly intended to facilitate discussions in the second session of the meeting of the Heads of Secretariats of economic groupings on the priority policy issues for revitalizing the economic integration process in developing countries in the 1990s.

2. From among different integration instruments this report focuses on the themes of trade co-operation and monetary and financial co-operation. Chapter I examines the major problems and issues pertinent to intra-grouping trade. It shows that trade liberalization, an important mechanism used widely by integration groupings, is a necessary but hardly sufficient condition for sustaining the expansion of intra-grouping trade. This chapter also reviews recent trends in intra-grouping trade and efforts to revive and strengthen trade co-operation. Chapter II examines monetary and financial co-operation, in particular issues and problems related to clearing and payment arrangements in the 1980s. An examination of the recent performance of those arrangements shows that the majority of them are still in crisis while only a few have witnessed some improvements. In general, efforts to revive and strengthen the clearing arrangements have continued and a number of integration groupings have also adopted new initiatives to strengthen other areas of monetary and financial co-operation.

3. Chapter III, largely descriptive, covers the salient development in major economic co-operation and integration groupings, including important new initiatives and measures. The large majority of the economic groupings have been concentrating their attention on removing obstacles to their integration process. Several of them have also launched new initiatives that fall within the spirit of the recommendations adopted at the first session of the meeting Heads of Secretariats.

4. Finally, in Chapter IV, the main events in some of the interregional economic arrangements among developing countries are examined.

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1 See *Report of the First Session of the Meeting of Heads of Secretariats of Economic Co-operation and Integration Groupings of Developing Countries*, (UNCTAD, TD B C.7 94, 11 April 1989).

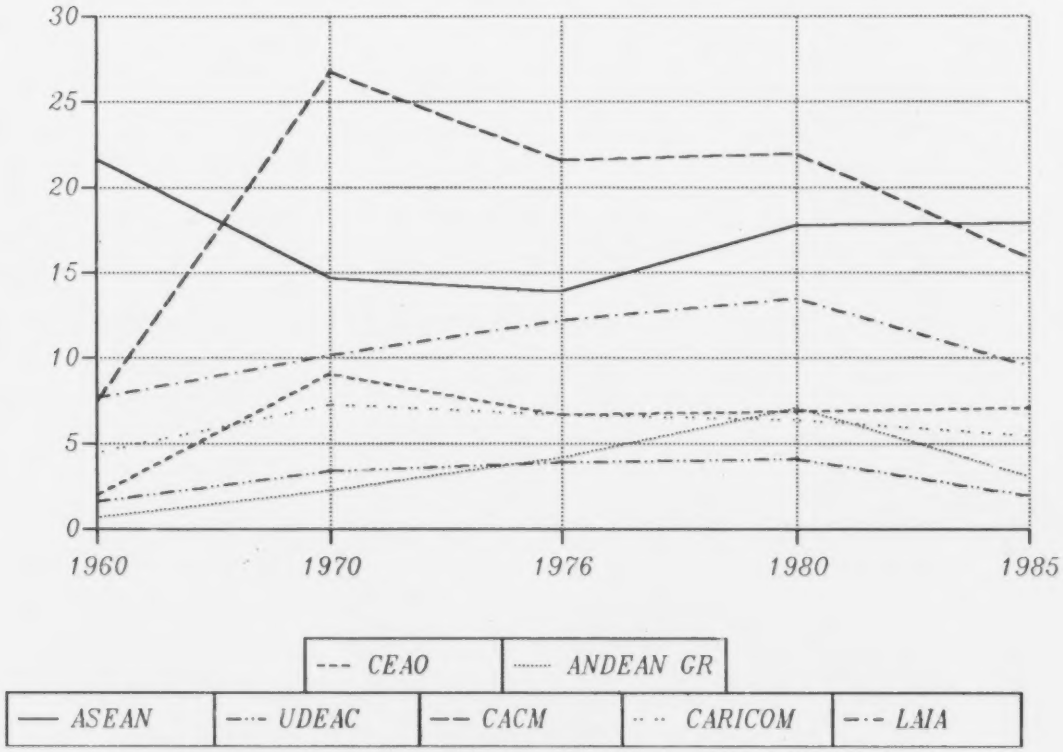
Chapter I

TRADE CO-OPERATION

A. Intra-grouping trade: problems and issues

5. The decade or two of experience in trade co-operation gained so far by developing countries shows that the process of strengthening trade co-operation and enhancing intra-grouping trade is a long-term process. Its success depends on effective trade liberalization programmes, the removal of structural weaknesses in trade-support networks and also on an healthy international economic climate.

Intraregional trade as a per cent of total exports of each group



6. In integration groupings where trade co-operation schemes involving varying degrees of trade liberalization have been launched there has been a marked expansion in the volume of intra-grouping trade in part as a result, to a greater or lesser degree, of the exchange of trade preferences. For example, between 1960 and 1980, the value (and share in total grouping trade) of intra-grouping trade increased in ALADI from US $ 564 million (7.7 %) to 10,270 million (13.5 %); in the Andean Group from US $ 25 million (0.7 %) to 955 million (3.5 %); in CACM from US $ 33 million (7.5 %) to 1,141 million (22.0 %); in CARICOM from US $ 27 million (4.5 %) to 354 million (6.4 %); and in UDEAC from US $ 3 million (1.6 %) to 200 million (4.1 %).[2] ASEAN launched its preferential trading agreement in 1976 and the value (and share) of its intra-trade increased from US $ 3,619 million (13.9 %) in that year to US $ 11,918 million (17.8 %) in 1980. However, the expansion in the share of intra-ASEAN trade was closely associated with the changes in the prices of a few commodities such as petroleum which dominated ASEAN intra-

2 ALADI, CACM, CARICOM and UDEAC extended and implemented mutual trade preferences before 1970.

trade rather than with the ASEAN preferential trading agreement. In CEAO, following the liberalization of intra-grouping trade in unprocessed products in 1974 and in selected industrial products in 1979, the value (and share in total CEAO exports) of intra-CEAO trade grew rapidly from US $ 177 million (6.7 per cent) in 1976 to US $ 396 million (10.1 per cent) in 1981.[3]

7. The experience of these integration groupings also shows that while trade liberalization has invariably led to an initial rapid growth in intra-grouping trade, it is not, by itself, a sufficient condition in ensuring that the expansion in intra-grouping trade is sustained. In most integration groupings the initial growth in mutual trade soon reached a peak, after which the volume of intra-grouping trade either stagnated and/or declined. This phenomenon is adequately illustrated by movements in the shares of total grouping exports accounted for by intra-grouping trade (see figure above). In CACM, for instance, the share of its intra-trade started to decline after 1970 and this decline accelerated in the early 1980s. In ALADI and Andean Group, their intra-grouping trade shares expanded continuously until 1980 when these shares fell drastically. In CARICOM and UDEAC intra-grouping trade shares stagnated between 1970 and 1980, after which these shares declined. In ASEAN after 1980, the share of its intra-grouping trade stagnated and that of CEAO declined. In all these integration groupings, their intra-trade slumped during the crisis period between 1981 and 1986.

8. There have been various constraints to the expansion of intra-grouping trade. Some of the common ones which need to be dealt with include, *inter alia*, the following:[4]

(a) The low degree of economic complementarity between member States of integration groupings. In this situation the mere liberalization of trade or engagement in limited forms of trade co-operation cannot be expected to sustain trade expansion within a grouping. Hence, member States of integration groupings need to take strong and positive joint actions and programmes to expand and diversify production regionally;

(b) The absence of production co-operation. In many integration groupings, in particular in Africa, subregional industrial and development policies and programmes have not yet been designed or launched to promote the development of regional complementary structures of production. Serious efforts are thus needed regarding the formulation and implementation of joint industrial and agricultural development policies;

(c) The lack of appropriate mechanisms for ensuring equitable distribution of costs and benefits of trade liberalization. Where such measures are absent, the benefits of trade liberalization are not apparent to especially the weaker partners. Nor is their consequential loss of tariff revenue a welcome result of trade liberalization. Hence, trade liberalization should be accompanied by an equitable distribution of benefits and costs to induce the weaker partners to participate. This could be evolved through improving links between trade liberalization and production and investment co-operation;

(d) Weakness of trade liberalization schemes of integration groupings due to limited product coverage and the small margin of trade preferences; the maintainance of long national lists of products excluded from trade liberalization; and stringent rules of origins. The integration groupings need to take appropriate action to remove such obstacles;

(e) The widespread use of non-tariff restrictions by member countries in most integration groupings for various reasons. These have had the effect of nullifying the tariff concession gained from trade liberalization and consequently inhibit the expansion of intra-grouping trade. Accordingly, the pursuit of trade liberalization in respect of non-tariff restrictions to intra-grouping trade needs to be emphasized;

(f) Poor and inadequate physical infrastructural links (particularly transportation and communication networks) among member States of integration groupings which have impeded the flow and growth of information, goods and services between member States of integration groupings. Such weaknesses will have to be addressed; and,

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3 These data are taken from UNCTAD, *Handbook of International Trade and Development Statistics*, 1989 and 1987 editions, (United Nations publications).

4 For an analysis on the market integration experience and difficulties encountered in: (i) Latin America see N.B. Mairal, *The Latin American Integration Process in 1985/1986/1987*, (Buenos Aires, Inter-American Development Bank and the Institute for Latin American Integration, 1989); and (ii) in Africa see F.T. Joshua, "Experience of African regional economic integration," in *UNCTAD Review*, Vol. 1, No. 2, (1989) pp. 59-78.

(g) The inclement international economic climate in the early 1980s including, the global economic recession, the persistent decline in commodity prices and rising external debt (and debt repayment obligations). These adverse externally induced developments have led to a serious deterioration in the external and internal balance of many developing countries and have necessitated the implementation of deflationary short-term structural adjustment measures aimed at restoring the debt-servicing capacity. These had harmful repercussions on the process of economic co-operation among developing countries, including on their intra-trade flows.[5]

B. Recent trends in intra-grouping trade

9. In the first half of the 1980s, intra-grouping trade performance was mostly negative. The value of most integration groupings' intra-trade, as illustrated earlier, had either declined systematically or remained stagnant between 1981 and 1985. In the latter part of the 1980s, some integration groupings begun to experience a modest improvement in their intra-trade performance. However, the recovery varies between regions and between integration groupings within a region (see table 1) and also it is too early to pass judgement on whether these improvements are due to the efforts of integration groupings to strengthen their trade co-operation programmes. The situation in each region is discussed below.

10. In Africa, the intra-trade values of all integration groupings have been growing since 1986. The percentage growth in the absolute values of intra-grouping between 1985 and 1988 was about 68 per cent for CEAO, 176 per cent for CEEAC, 42 per cent for ECOWAS, 50 per cent for MRU, 52 per cent for PTA, 52 per cent for SADCC and 134 per cent for UDEAC. In most of those integration groupings, their intra-trade values in 1988 had exceeded their 1981 pre-crisis levels. However, with the exception of two integration groupings (CEAO and PTA) the relative share of intra-grouping trade in this region remains marginal. This ratio, between 1986 and 1988, averaged about 8.5 per cent for CEAO, 3.1 per cent for CEEAC, 0.7 per cent for CEPGL, 4.0 per cent for ECOWAS, 0.5 per cent for MRU, 7.9 per cent for PTA, 5.6 per cent for SADCC and 3.3 per cent for UDEAC.

11. In Latin American and the Caribbean, the revival in the volume of intra-grouping trade after 1985 varies between the integration groupings. In ALADI, intra-grouping trade has been growing systematically since 1986 and by 1989, it was 59 per cent above the 1985 level. In the Andean Group, intra-grouping trade recovered strongly in 1987, and then it dropped slightly in the following two years; nevertheless, it has recovered above the pre-crisis level. In CACM and CARICOM, the value of intra-grouping trade continued to decline until 1988 when some modest increases (15 and 5 per cent respectively for that year) were registered. The changes in the relative sizes of the subregional markets also varied between integration groupings. In ALADI and CACM, the shares of intra-grouping trade in total grouping trade in recent years has been fluctuating below the 1981 level at an average ratio of about 11 per cent in ALADI and 15 per cent in CACM respectively. In the Andean Group, the share of intra-grouping trade has risen from an average of about 3.2 per cent for most of the 1980s to about 5.2 per cent in 1988. In CARICOM, the share of intra-grouping trade, following the rise in the value of intra-trade in 1988, also increased slightly in that year.

12. In the Asian region, with the exception of ECO, the integration groupings' intra-trade values have tended to fluctuate for most of the 1980s and such fluctuations have been mostly upwards in 1987 and 1988. For example, between 1986 and 1988, the value of intra-grouping trade expanded by 65 per cent in ASEAN, 12 per cent in Bangkok Agreement and 14 per cent in GCC. In relative terms, however, the proportion of total grouping trade accounted for by intra-trade in these three integration groupings has been largely stable. This ratio, since 1981, has averaged about 17.7 per cent in ASEAN, 1.9 per cent in the Bangkok Agreement and 5.0 per cent in GCC. In ECO, the absolute value and relative share of intra-grouping trade has continued to decline up to 1988.

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[5] For further discussion on the constraints on on intra-grou[illegible] trade arising from adjustments to macro-economic imbalances see UNCTAD, ***Review of developments in the area of trade and monetary and financial co-operation among developing countries***, (TD B C.7 92, 29 March 1989) and UNCTAD, ***Trade expansion among developing countries: constraints and measures to overcome them***, (TD B 1260, 9 August 1990).

TABLE 1

MUTUAL TRADE PERFORMANCE OF ECONOMIC CO-OPERATION AND INTEGRATION GROUPINGS OF DEVELOPING COUNTRIES, 1981 TO 1989

Country Group	1981	1985	1986	1987	1988	1989
A. Value of intra-group trade (in millions of dollars)						
AFRICA						
CEAO	396	297	300	416	499	...
CEEAC [a]	111	70	125	128	193	...
CEPGL	7	10	8	8	10	...
ECOWAS	944	481	491	588	684	...
MRU	3	4	4	5	6	...
PTA [a]	482	333	372	487	506	494
SADCC [a]	258	200	226	308	304	...
UDEAC	146	50	84	103	117	...
AMERICA						
ALADI	11 180	6 779	8 220	8 574	9 769	10 800 [b]
ANDEAN GR.	944	672	622	1 028	968	962 [b]
CACM	940	671	620	428	495	...
CARICOM	379	340	300	165	174	...
ASIA						
ASEAN	12 651	12 713	11 096	14 691	18 277	...
BANGKOK AGR.	632	1 026	994	1 017	1 109	...
ECO	890	2 410	1 750	1 538	1 194	...
GCC	5 603	2 857	2 750	3 084	3 147	...
B. Intra-group trade as a percentage of total exports of each group						
AFRICA						
CEAO	10.1	7.1	6.5	8.4	10.5	...
CEEAC	2.4	1.4	2.8	2.9	3.7	...
CEPGL	0.2	0.8	0.6	0.7	0.7	...
ECOWAS	4.6	2.5	3.2	4.0	4.9	...
MRU	0.1	0.4	0.4	0.5	0.6	...
PTA	9.0	7.5	6.9	8.9	8.0	7.8
SADCC	5.7	4.9	5.9	6.1	5.0	...
UDEAC	3.0	2.0	3.0	3.2	3.6	...
AMERICA						
ALADI	12.6	9.6	11.5	10.9	10.7	10.6
ANDEAN GR.	3.4	3.1	3.3	5.5	5.2	3.9
CACM	20.7	15.9	17.7	13.2	14.4	...
CARICOM	7.4	5.5	5.4	3.0	3.3	...
ASIA						
ASEAN	18.9	17.9	16.7	17.6	17.5	...
BANGKOK AGR.	1.9	2.5	2.2	1.7	1.4	...
ECO	4.2	10.0	9.1	6.1	4.5	...
GCC	3.4	4.6	5.8	5.6	5.4	...

Source: UNCTAD, *Handbook of International Trade Statistics*, 1989, 1987 and 1983 supplements. United Nations publication.

Note: Not all country groups have extended and implemented mutual trade preferences.

a Trade data obtained from the IMF Direction of Trade Statistics.

b Data provided by the integration grouping concerned.

C. Recent initiatives and measures

13. In recent years, efforts to revive and strengthen trade co-operation have gained some momentum in almost all developing regions. In particular significant policy initiatives have been taken by many of them in relation to the strengthening of their trade liberalization programmes. The scope and magnitude of such efforts, however, differs between the various integration groupings.

14. The Economic Community of West African States' trade liberalization programme, pursuant to a decision of the 12th ECOWAS Summit in Ouagadougou (Burkina Faso) in June 1989, was finally launched on 1st January 1990. The ECOWAS trade liberalization programme stipulates that intra-trade in agricultural raw materials and handicrafts produced within the Community are to be totally liberalized from the outset with respect to tariff duties. The tariff duties on industrial products traded within ECOWAS are to be gradually phased out. A total of 25 industrial products from eight member States have been selected to benefit from the trade concessions and these include, *inter alia*, beer, bleach, refrigerators, air conditioners, kitchen utensils, plastic bags and biscuits. The list of industrial products will be gradually increased and, in this regard, the ECOWAS secretariat has prepared a second list of 42 industrial products to be included in the trade liberalization programme from about 102 applications from member States. The tariff reduction schedules vary according to three country groups which have been established on the basis of their level of industrialization and two product schedules (priority and non-priority products). All ECOWAS member States have committed themselves to remove completely tariff barriers to intra-ECOWAS trade in all products by the year 2000 (see table 2). Although the current ECOWAS trade liberalization programme is a modest start, it is a significant one in view of the difficulties ECOWAS has experienced in bringing into fruition this programme.[6] ECOWAS also approved the establishment of a special Compensation Fund in December 1988 to be used to compensate those member States that suffer material losses from the application of the trade liberalization programme. The Fund will be funded by those member States exporting liberalized products and, in this connection, some of the assessed contributions have been received.

TABLE 2

THE ECOWAS TARIFF REDUCTION SCHEDULE

Country Group	Priority Products		Non-Priority Products	
	Annual rate of tariff cuts (%)	Total number of years	Annual rate of tariff cuts (%)	Total number of years
Group I [a]	25.0	4	16.6	6
Group II [b]	16.6	6	12.5	8
Group III [c]	12.5	8	10.0	10

Source: UNCTAD secretariat.

a Group I comprises Côte d'Ivoire, Ghana, Nigeria and Senegal.

b Group II is composed of Benin, Guinea, Liberia, Sierra Leone and Togo.

c Group III comprises Burkina Faso, Cape Verde, the Gambia, Guinea-Bissau, Mali, Mauritania and Niger.

15. MRU has also consolidated its trade liberalization programme. The member State of Guinea has been fully incorporated into the MRU trade liberalization programme and the procedures and documentation required for intra-union trade have also been simplified. Efforts are now being directed towards promoting greater involvement of private entrepreneurs in the exploitation of import and export opportunities with the Union.

16. In CEEAC, its 5th Summit in Bangui (Central African Republic) in March 1989 agreed that member States have until 1991 to bring about a stabilization of their tax and customs regimes. The lack of progress on this issue, which was supposed to have been realized in 1984, has been the

6 The entry into force of the ECOWAS trade liberalization programme had been postponed and the programme itself was revised several times during the 1980s.

major factor holding back the launching of the CEEAC trade liberalization programme. Nevertheless, the Summit agreed to liberalize intra-CEEAC trade in crude products originating in member States, thus a list of these crude products is to be established.

17. In PTA, nine member States, out of the twelve eligible for applying the PTA trade liberalization programme, have published their tariffs for the PTA by the end of 1989. The PTA Common List of exportable products that benefit from trade concessions has been increased from 312 in 1987 to over 700 presently. The PTA member States are currently negotiating on a process of gradual reduction and eventual elimination of non-tariff barriers. Negotiations in this respect are underway.

18. ASEAN has made steady advances in improving its trade liberalization process along the lines dictated by the Third ASEAN Summit Meeting in 1987. In 1988, 1,679 items were removed from the exclusion lists of ASEAN member States and introduced into the ASEAN Preferential Trading Arrangement (PTA) with a minimum margin of preference (MOP) of 25 per cent. The total number of items under the ASEAN PTA was thus raised to 14,462. Furthermore, 3,261 items from the existing PTA list have had their MOP increased. The completion of the 1989 ASEAN PTA programme will add another 335 items from the national exclusion lists into the ASEAN PTA list, and enlarge the MOP on 2,848 items already on the PTA list. All ASEAN countries have also confirmed their ASEAN PTA improvement programme for 1990. Regarding non-tariff barriers, lists of such barriers have been compiled and exchanged by most ASEAN member States (except Brunei Darussalem and Indonesia). These lists will form the basis from which negotiations are to be undertaken on the standstill and rollback of non-tariff barriers to regional trade. So far, 70 requests for rollback of non-tariff barriers have been filed and preliminary negotiations on some of these requests are already underway.

19. In the Bangkok Agreement, the the conclusion of the second round of negotiations has improved the preferential trading arrangement. The total number of products in the national lists of concessions of member States was raised to 126, which also includes 26 special concessions accorded to the least developed countries (Bangladesh and the Lao People' Democratic Republic). The trade concessions have also been increased. The trade among the Bangkok Agreement countries in the 126 products, however, is low; in 1985 (latest year for which data is available) such trade amounted to only 3.1 per cent of the aggregate imports of the grouping.[7]

TABLE 3

HOW THE PAR WORKS

	Reduction on tariffs for third-party imports		
Importer (grants) / Exporter (receives)	Lesser relative development [a]	Intermediate development [b]	Other members [c]
Lesser relative development [a]	20 %	12 %	8 %
Intermediate development [b]	28 %	20 %	12 %
Other members [c]	40 %	28 %	20 %

Source: ***Latin America Weekly Report***, 12 July 1990.

Note: Allowable exemptions per country category (number of items): (a) 1,920, (b) 960, (c) 480.

a Bolivia, Ecuador, Paraguay

b Chile, Colombia, Peru, Uruguay, Venezuela

c Argentina, Brazil, Mexico

20. In ALADI the member States decided in June 1990 to augment over the next two years the ALADI tariff preference, Preferencia Arancelaria Regional (PAR), from an average rate of 10 per

7 Information provided by the Bangkok Agreement to the GATT secretariat.

cent to 20 per cent.[8] The actual preferential tariff rates for intra-ALADI exports will range from 8 to 40 per cent depending on the relative development level of member States. Table 3 illustrates how the PAR will work in practice. ALADI member States have also agreed to cut substantially the products on the lists of exceptions to preferential treatment. This latter agreement is crucial for enhancing the effectiveness of the PAR as regards trade creation.

21. In the Andean Group, the member States adopted some major decisions on intensifying their market integration process. In December 1989 the Heads of State adopted a Strategic Design for the Orientation of the Andean Group which singles out the consolidation of the Andean economic space as one of its two basic objectives. The Strategic Design stipulates that the Andean economic space is to be consolidated through, *inter alia*, an acceleration of the completion of the subregional expanded market by bringing forward the time-limits for the completion of the Liberalization Programme,[9] the adoption of the Common External Tariff and for the dismantling of the temporary system of managed trade.[10] According to the modalities for the implementation of the Strategic Design and subsequent decisions taken in this regard:

(a) Member States are to complete by 31 December 1995 the Liberalization Programme for all products, except for those in the national exception lists which member States should also eliminate;

(b) The original deadline for the total elimination of the temporary system of managed trade is brought forward by six years through the reduction in 1990 on the number of products on the managed trade lists of member States by at least 80 per cent, and the remaining 20 per cent is to be eliminated no later than 31 December 1991; and

(c) A reduction of the average level of the Minimum Common External Tariff (AEMC)[11] from 28.5 per cent to 16.5 per cent and its maximum level is to be lowered from 110 per cent to 50 per cent. Also, the number of products subjected to the AEMC has been increased by 706 items to a total of 4,014 items. Regarding the uniform Common External Tariff (AEC), it has to be approved by the Andean Group by 31 December 1992. Its gradual adoption by member States should begin on that date and should be fully applied by Colombia, Peru and Venezuela by 31 December 1997 and by Bolivia and Ecuador no later than 31 December 1999.[12]

22. In CACM, the economy ministers agreed in August 1990 to establish a free trading zone by 1992. This policy directive aims to intensify the efforts by member States to re-instate fully liberalized intra-CACM trade.

23. CARICOM began removing the barriers to its intra-grouping trade in 1988. Recently, CARICOM has undertaken new commitments to accelerate its trade liberalization process and strengthen regional trade co-operation with a view to accelerating the formation of a fully-fledged common market. The 10th CARICOM Conference in July 1989 decided among other things on the following: (i) implementation by January 1991 the revised common external tariff, the updated rules of origins and the harmonized scheme of fiscal incentives; and (ii) elimination of all remaining barriers to intra-regional trade by July 1991. The trade ministers of CARICOM have been meeting to draw up the terms for these trade measures in order to meet the January 1991 deadlines.

24. In addition to new initiatives in trade liberalization programmes, some integration groupings have focused their attention on developing other trade promotion measures. In CEAO, for instance, its 13th Summit in October 1989 adopted a five-year plan to increase intra-CEAO trade.

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8 The PAR started out with an average rate of 5 per cent in 1984 which was subsequently increased to 10 per cent in 1988.

9 The aim of the Liberalization Programme is to eliminate all charges and restrictions affecting intra-Andean trade.

10 This temporary system of managed trade, which was an exception to the Liberalization Programme, was established by the Quito Protocol in 1987 for the purpose of resolving the problems which had risen in subregional trade in certain products and which had resulted in the unilateral non-compliance with the Cartagena Agreement by most member States during the crisis period between 1983 and 1986.

11 The Cartagena Agreement provides from the adoption of a common external tariff (AEC), following an initial period during which a minimum common external tariff (AEMC) would be applied.

12 This decision contrasts sharply with the Quito Protocol which calls on member States to undertake to bring about a common external tariff without specifying a time-frame.

25. In CEEAC, its first trade fair took place in July 1990 following its endorsement by the 5th CEEAC Summit. The aim of the fair was to create trade among CEEAC countries.

26. In SADCC, much emphasis has traditionally been placed on the expansion of exports to the Nordic countries. Recently SADCC has felt the need to examine other potential markets and, in this connection, it has commissioned several studies. In this trade promotion endeavour, SADCC would need to look at at expanding trade through intra-SADCC and intra-African trade, trade with other developing countries and trade with developed countries.[13]

27. GCC has been attempting to strengthen co-operation with the EEC in trade relations. In 1988, the GCC and the EEC agreed to accord 'most favoured nation' status to each other and to freeze new tariffs and other trade barriers on each other exports. Then in December 1989, the EEC countries agreed to open negotiations with the GCC on a free trade arrangement between the two country groups. However, so far no concrete results have emerged in this respect.

28. Newly established integration groupings have also recognized the need to set up effective trade co-operation measures. For example, AMU has established a Trade Council whose objectives are to promote joint import procurement programmes; align and co-ordinate laws and activities in support of prices for products of high consumption; and promote intra- and extra-regional trade in Maghrebian goods. The ACC charter also provides for the co-ordination and harmonization of trade policies of its member States. Also SAARC, its 5th Summit in December 1988 formally integrated trade into its sphere of co-operation by recommending the creation of specific areas and mechanisms of co-operation in trade, manufactures and services.

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13 For a concise discussion of SADCC's trade prospects see G. Williams, "Some Notes on Aspects of SADCC Trade", paper presented at a seminar organized by SADCC Committee of Ambassadors and High Commissioners in London to mark SADCC's Tenth Anniversary, April 1990.

Chapter II

MONETARY AND FINANCIAL CO-OPERATION

A. Clearing and payments arrangements

29. As at the end of 1989 seven such clearing and payments arrangements existed. The ALADI Payments and Reciprocal Credit System, Asian Clearing Union (ACU), West African Clearing House (WACH), Central African Clearing House (CAfCH), PTA Clearing Arrangement, Central American Clearing House (CACH) and the CARICOM Multilateral Clearing Facility (CMCF).

30. The emergence of the liquidity crisis in the early 1980s undermined the operations of most of those clearing and payments arrangements. The most stricking feature of this malaise was the chronic accumulation of arrears due to the persistent postponement of settlements at the end of the clearing periods. This situation forced some central banks to carry-out operations outside the system and serveral countries exercised their right to withdraw from those arrangements.

31. Other factors restricting the clearing operations, have been the small volume of transactions, restrictions on the type of trade cleared and persistent debtor-creditor patterns arising from imbalances of intra-regional trade.

32. The extensive use of the regular lines of credits during the economic crisis of the mid-1980s in the ALADI Payments and Reciprocal Credits System, forced members to clear their debits with each other before the lapse of the normal 120-day settlement period and in many cases to resort to the establishment of second lines of credit in order to increase the resource base of the system. The volume of transactions cleared through the system since 1986 has stabilized around US $ 6,000 million and the proportion cleared in foreign transactions has averaged 15.0 per cent during this period (see table 4). In the Santo Domingo Agreement which provides lines of credit that are granted by participating central banks (ALADI member States and the Dominican Republic) to each other, for a total worth of US $ 650 million, the participating countries in 1987 came to a gentlemen's agreement of no recourse to financing which effectively closed the system. The Caribbean Multilateral Clearing Facility which was established to facilitate intra-regional trade reached its credit ceilings and ceased operations in 1984. Despite the identification of measures by the Conference of CARICOM Heads of Government to reactivate the CMCF, it has not yet resumed operations. Meanwhile the central banks, since 1987, have settled intra-regional trade debts bilaterally. In the Central American Clearing House, the chronic accumulation of intra-regional debts led to the suspension of its operations in 1984. In fact, only the central banks of El Salvador and Honduras are using the CACH; Guatemala and Costa Rica abandoned altogether the use of the CACH since September 1986 and August 1987 respectively. Not surprisingly, the volume of transactions channelled through the system declined up to 1989 and the percentage of transactions settled in foreign currencies increased from 27 to 32 per cent between 1986 and 1989 (see table 4).

33. In Asia, the only arrangement, the Asian Clearing Union, performed better and continued to operate smoothly, both as a clearing house as well as a forum for monetary co-operation, and has had a record free of default. The ACU's volume of transactions increased between 1988 and 1989, and the percentage of transactions settled in foreign exchange declined from 31 per cent in 1986 to 17 per cent in 1989 (see table 4).

34. In the African region, in both the PTA Clearing House and the West African Clearing House, the volume of transactions cleared and those channelled account for only a small proportion of intra-trade in the two subregions. In addition in WACH, the volume of transactions channelled through the system was drastically reduced. The amount cleared by WACH has continued declining until 1989 when it registered an increase (see table 4). In the PTA Clearing House the transactions channelled and amount cleared have increased in 1989 (see table 4).

B. Regional trade financing institutions

35. In addition to the credit and payment arrangements currently operating in developing countries, there are regional trade financing institutions. Most of them were designed with a view

TABLE 4

MULTILATERAL CLEARING AND PAYMENTS ARRANGEMENTS OF DEVELOPING COUNTRIES (1986-1989)

(in millions of US dollars)

Facilities/ Years	(1) volume of transactions	(2) transactions cleared	(3) transactions settled in foreign exchange	percentage 4 = 3/1
Central American Clearing House				
1986	189.0	149.0	40.5	27.1
1987	210.5	165.0	45.5	21.6
1988	98.0	64.0	34.0	34.6
1989 [a]	40.0	27.6	13.0	32.5
ALADI Payments and Reciprocal Credit System				
1986	6,268	5,289.5	978.5	15.6
1987	5,360	4,591.9	768.1	14.3
1988	6,115	5,193.8	921.2	15.0
1989 [a]	5,960	5,062.0	898.0	15.0
Asian Clearing Union				
1986	651.5	455.1	204.4	31.0
1987	580.0	460.0	120.0	20.6
1988	217.0	165.0	52.0	23.9
1989 [a]	290.0	240.0	50.0	17.3
West African Clearing House				
1986	109.3	15.4	93.9	85.9
1987	56.5	5.2	51.3	98.8
1988	26.2	6.1	20.1	76.7
1988	26.2	6.1	20.1	76.7
1989 [a]	38.5	12.0	26.5	68.8
PTA Clearing Arrangement				
1986	79.0	14.2	64.8	82.0
1987	65.2	53.2	12.0	18.4
1988	64.0	33.0	31.0	51.5
1989 [a]	72.0	53.0	19.0	35.8

Source: Compiled by the UNCTAD secretariat from information provided by the clearing arrangements.
Note: Data not available for the Central African Clearing House.
a Preliminary data.

to providing short- and medium-term credits for the financing of their mutual trade as well as trade with developed countries. Their main objective is to supplement finance provided by national and international financial institutions. There are five regional trade financing institutions: (i) the Latin American Export Bank (BLADEX); (ii) the Andean Trade Financing System (SAFICO); (iii) the Inter-American Development Bank (IDB) Trade Financing Facility; (iv) the Islamic Development Bank (IsDB); and (v) the Arab Monetary Fund (AMF) Trade Financing Facility. BLADEX is a private multinational bank which specializes in the promotion of exports from Latin America while SAFICO is operated by the Andean Development Corporaton for the financing of non-traditional exports of goods from the Andean countries to the subregion.[14] The IDB and the IsDB, are de-

[14] Chile withdrew from SAFICO in 1976.

velopment finance institutions which have expanded their activities to cover trade financing operations in member countries. The other two similar institutions, the African Development Bank and the Asian Development Bank, are currently evaluating the feasibility of trade financing mechanisms for their member countries.

36. The existing institutions have a lending capacity for trade-related credits of approximately $2.9 billion. Although this is a modest amount compared with the size of trade among developing countries, such resources are a meaningful supplement to credits available from other sources as they have a definite catalytic potential and are an effective means for pooling available finance (see table 5).

TABLE 5

TRADE RELATED CREDITS EXTENDED BY REGIONAL INSTITUTIONS

(Millions of US dollars)

	1983	1984	1985	1986	1989 [a]
BLADEX	292.3	295.5	394.4	489.9	600.0
IDB Trade Financing facility	62.0	65.1	72.1	85.3	79.1
IsDB [b]	519.5	704.4	659.4	647.3	79.0
SAFICO	15.1	14.3	19.1	24.8	30.0
AMF Trade Financing Facility [c]	-	43.1	46.5	34.8	37.0

Source: ***BLADEX Memoria,*** various reports; Corporación Andina de Fomento, ***Memoria,*** various reports; IsDB ***Annual Report 1987***; IDB ***Annual Report 1987***; Arab Monetary Fund Annual Report.

a Preliminary data.

b Since 1987, the Islamic Development Bank has established an Export Financing Facility as an autonomous facility.

c Since September 1990, this facility was converted into an independant organization, "The Arab Trade Financing Programme."

37. Within the overall size of resources the effective use of resources varies from one institution to another. In the case of BLADEX and the IsDB, the ratio between the use of the two institutions' resources and their total size is still rather low. This situation is reflected in surplus resources which have been invested in the international money market. The ratio of loans to interest-bearing assets in international financial markets has been 0.82 for BLADEX in 1989 and 1.2 for the Islamic Development Bank in the same year. In this regard perhaps a conservative attitude regarding safety, liquidity and profitability of the portfolio investments is the explanation.

C. Recent initiatives and measures

38. Financial co-operation mechanisms such as payments and credit arrangements are important for facilitating and supporting economic co-operation and integration. The decline in the operations of such arrangements which coincided with the overall decline in intra-grouping trade have both come about during the difficult period of 1982 to 1986. In recognizing the link among these developments many integration groupings have, in addition to their efforts to revitalize intra-grouping trade, have also taken measures to revive and strengthen their financial and monetary co-operation arangements.

39. CEEAC established a new clearing house in February 1989 to replace the existing Central African Clearing House (CAfCH) *inter alia* to promote the use of the subregional currencies in intra-regional trade. This arrangement aims to adopt market-oriented exchange rate for national currencies, new and faster methods for the cashing of letters of credit and provide coverage against fluctuations in exchange rates. All tariff and non-tariff barriers on goods originating in CEEAC countries and channelled through the new clearing house are to be abolished.

40. The Board of Governors of ECOWAS central banks in May 1990 endorsed the establishment of a credit facility with a capital base of US $ 50 million, to support the activities of WACH.

However, in view of their tight financial situation the possibility of mobilizing some of the necessary resources from international donors is being explored.

41. The Heads of State and Government Authority of PTA at their meeting in December 1989 decided to establish the PTA Clearing House as an autonomous institution which will begin operations in January 1992. In the intervening period, the multilateral clearing functions will continue to be performed by the Reserve Bank of Zimbabwe. PTA is also considering the establishment of a clearing and settlement facility in the clearing house to assist debtor central banks experiencing difficulty in meeting their clearing obligations and also to facilitate cross-border investments.

42. ALADI continued to analyse various proposals for strengthening its Reciprocal Credit and Payments System and for restoring its multilateral character. One concrete supportive measure which other arrangements should also consider introducing, was the introduction of a fully computerized information system which facilitates the transmission to participating banks through teleprocessing the range of information relating to payment operations. Based on an Operations Centre located in Lima (Peru) the system enables Central Banks to know their daily positions within the Payments system and other information relating to not only their daily, but also their regular and four-monthly balances as well as historical information on previous periods. With this system, the Central Banks are in a position to plan their payments, when they are debtors, to know their credits, when they are creditors, and to reimburse their commercial banks in a timely way, after receiving the corresponding debits. Before the establishment of the system this process took up to one month.

43. CACM has also been reviewing various proposals to revive the CACH within a wider project for reviving financial co-operation. These include the reorganization of CACH and the creation of a special facility for supporting intra-regional export ventures; the creation of a special facility for the relatively less advanced countries with chronic deficits in intra-grouping trade; and a restructuring and strengthening of the Central American Bank for Economic Integration. The EEC is lending support to CACM in the implementation of this project.

44. Various proposals are also under consideration to alleviate the problems of indebtedness within the CARICOM Multilateral Clearing Facility. Current efforts are devoted to a joint approach to extra-regional donors for assistance in establishing a regional payments support fund as well as an intra-regional export financing facility.

45. The ACU, introduced in March 1989 currency and credit swap arrangements under which two transactions totalling US $ 30 million have already been effected.

46. Several integration groupings have also launched new initiatives to strengthen overall co-operation in financial and monetary matters. For example, AMU established a Financial Council to promote co-operation among its member States in developing, *inter alia*, a Maghrebian investment bank, joint co-operation in insurance and reinsurance and investment guarantee schemes.

47. ECOWAS member States agreed to allow non-ECOWAS countries and institutions to purchase a minority share of the share capital of the ECOWAS Fund, the principal financial institution of ECOWAS. This initiative was aimed at increasing the Fund's authorized capital. The ECOWAS Fund has also launched initiatives to undertake closer co-operation with the African Development Bank and the World Bank.

48. In addition, ECOWAS in May 1990 approved a time-table for the introduction of an ECOWAS single monetary zone and the common monetary authority by the end of 1994. To that end the year 1991 shall be devoted to negotiations on the details of harmonization of macro-economic policies directly related to monetary harmonization, non-tariff barriers, and on the protocols, rules and regulations relating to these issues.

49. MRU has launched the first phase of its monetary union studies. This phase involves studies relating to the current trade flows among the member States, the structure and capacity of production within the Union, and an assessment of all available studies on monetary integration in West Africa. These studies are being undertaken by the central banks of the member States and their joint report will form the basis for more detailed studies on the precise policy and adjustment measures that will be required by each State towards the gradual attainment of a monetary union.

50. PTA has taken a concrete step towards reducing the use of foreign hard currencies and promoting businesses and tourism in the PTA subregion with the introduction of the PTA Travellers Cheques in August 1988. These travellers cheques are denominated in the PTA unit of account (UAPTA) and are issued solely by the PTA Trade and Development Bank in 10, 20, 50 and 1000 UAPTA denominations. According to the report of the PTA Executive Secretary to the PTA Authority in late 1989, almost all PTA countries honour the use of the PTA travellers cheques[15] and the monthly transactions in PTA travellers cheques amounted to an equivalent of US $ 3.25 million. PTA is also considering the possibility of monetary harmonization and it has commissioned a report on the subject.

51. In ALADI, some of the objectives of earlier initiatives concerning the establishment of an ALADI currency unit are now expected to be realized as a result of the transformation of the ANDEAN Reserve Fund into the Latin American Reserve Fund. This development raises the possibility of the creation of a new currency among central banks similar to the Andean peso. The transformation will be complete once the legal instruments have been ratified by Colombia and Ecuador. For an initial 10 years participation will be restricted to ALADI countries, thereafter the arrangement will become open to participation by other Latin American and Caribbean countries. Subscriptions to the capital stock of the Fund, is to be decided later. Also, since 1989, new arrangements have been made for a partial use of the Santo Dominigo Agreement.

52. In the Andean Group, an important development was the transformation of the Andean Reserve Fund into the Latin American Reserve Fund (see previous paragraph). In addition, the Strategic Design for the Orientation of the Andean Group (mentioned earlier) also instructs the Andean Group: to co-ordinate foreign exchange and monetary policies with a view to supporting subregional market expansion; to strengthen the financial capabilities of its specialized trade financial and payment bodies; adopt measures connected with the operation of the Latin American Reserve Fund; and make greater use of existing financing and payments mechanisms, especially the Andean Peso. The Andean Peso, which was designed to be used exclusively for payments through the Andean Reserve Fund, was viewed as the best way to carry out intra-subregional trade payments.[16] At the moment the Andean Pesos have a maturity of 180 days before compulsory repurchasing by the Andean Reserve Fund against the US dollar. The central banks that have used the Andean Pesos are also obliged to repurchase the same amount of pesos in foreign reserves.

53. The progress towards greater monetary co-operation is also being intensified in CARICOM. The 10th CARICOM Conference in July 1989, *inter alia*, adopted as one of the measures for the intensification of the Caribbean integration process, the establishment of arrangements for closer consultation and co-operation on monetary, financial and exchange rate policies by July 1990.

54. In ASEAN, several new financial institutions were created. The ASEAN Reinsurance Corporation was incorporated in December 1989 to promote intra-ASEAN trade in reinsurance amounting to US $ 150 million. The ASEAN FUND Ltd. introduced in November 1988 will function as an investment institution dealing in equity based securities (shares and convertible bonds) of companies in the ASEAN region. Similarly, the ASEAN Committee on Finance and Banking is studing issues and proposals relating to the development of domestic capital markets.

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15 It was noted that only a few countries have not accepted the PTA travellers cheques as payment for service charges, especially airport taxes and road transit charges.

16 Initially, the only authorized holders of the Andean Pesos were the Andean Reserve Fund, the Andean Development Co-operation and the Central Banks of member countries. In 1987, the system was extended to all Latin American countries.

Chapter III

REVIEW OF RECENT DEVELOPMENTS IN MAJOR ECONOMIC CO-OPERATION AND INTEGRATION GROUPINGS OF DEVELOPING COUNTRIES

A. Africa

55. The large majority of the intergovernmental economic co-operation and integration groupings of developing countries are located in the African region. There are eight major subregional economic integration groupings, namely, the AMU, CEAO, CEEAC, CEPGL, ECOWAS, MRU, PTA, and UDEAC. These groupings have formal structures and they basically pursue market integration policies (most aim at achieving common market status). The many economic co-operation arrangements fall into two basic categories: (i) organizations with flexible co-operation arrangements which provide for joint consultation, co-ordination and development of sectoral policies and projects such as the Permanent Inter-State Committee on Drought Control in the Sahel (CILSS); and (ii) organizations devoted to fulfilling specific functions such as the intergovernmental commissions responsible for co-ordinating the integrated development of river and valley basins such as the Lake Chad Basin Commission (LCBC).

56. One development that will have major implications for the economic groupings and the economic integration process in Africa, was the decision of the Organization of African Unity (OAU) Heads of States and Government Summit in July 1990 to establish in gradual stages an African Economic Community by the year 2025. This political decision was based on the Summit's conclusion that intra-African co-operation is crucial to the economic survival of the region in the coming years. In the same resolution, the OAU Summit agreed to merge the proposed Community with the OAU into a single organization with one secretariat. This decision has major financial and institutional implications which would be addressed in the treaty establishing the African Economic Community. A draft of this treaty is presently being reviewed and finalized by the OAU Permanent Steering Committee. The final text of the treaty will be presented to the next OAU Summit in June 1991 in Abuja (Nigeria) for adoption.

1. Arab Maghreb Union (AMU)

57. AMU, a recently established grouping comprising five North African countries, wasted no time in launching its integration process. The institutional framework and broad guidelines for pursuing integration efforts in the areas of food security, economy and finance, infrastructure, and human resources development have been completed.

58. The preliminary progress towards the joint development of service and service infrastructure are noteworthy. Member States have agreed to create a joint air company, Air Maghreb; and to co-ordinate investment programmes, exchange information and share common technical specifications on postal and telecommunication systems. In the area of economy and finance, co-operation is being pursued within sectorial councils covering trade, industry, energy and mines, finance and tourism and crafts. The council on trade will promote trade co-operation. The finance council will examine the prospects for an AMU investment bank, external trading financing and other financial services such as insurance and reinsurance. The industry council will promote the objective of greater subregional industrial complementarity.

59. Given the low degree of pre-AMU economic interdependence and the low level of intra-trade, the integration goals of AMU appear quite ambitious. In order to exploit fully the potential benefits of integration, a realistic approach with a sharp focus on priorities is required.

2. West African Economic Community (CEAO)

60. New initiatives have been taken to bring about greater policy harmonization and co-ordination, promote CEAO intra-trade expansion, align agricultural policy, develop regional industries and co-ordinate investment. A "Community Solidarity Tax" of 1.0 per cent on all imports from third countries was adopted by the CEAO to provide it with a permanent and stable source of income. However, its applicability on non-CEAO ECOWAS countries is legally controversial.

61. CEAO's Solidarity Fund for Community Development (Fosidec), which finances CEAO projects, had drastically curtailed its activities after 1986 due to important financial setbacks. However, in January 1990 an aid packages of CFA francs 70 million was worked out jointly by France, the African development Bank and the World Bank to relaunch and strengthen this important institution.[17]

3. Economic Community of Central African States (CEEAC)

62. CEEAC, since its creation in 1983, experienced great difficulties in launching effective co-operation among its 10 member States. Joint efforts to boost intra-trade, which is fairly low, have not been successful. Also due to financial difficulties resulting from defaults on contributions by some of the member States, many CEEAC projects could not be implemented.

63. In recent years, CEEAC has adopted some new intiatives to strengthen its integration process. CEEAC has recently established a clearing house and also agreed to allow free movement of certain categories of citizens (researchers, students and border dwellers). Steps have also been taken to strengthen co-operation among local airlines and to liberalize the national airspace of member States with the ultimate aim of establishing a community airline.

4. Economic Community of the Great Lakes (CEPGL)

64. CEPGL has recently been preoccupied with national and collective security issues. Various CEPGL economic conventions such as free factor mobility and the right of establishment are awaiting ratification by the member States.

5. Economic Community of West African States (ECOWAS)

65. The 16 member ECOWAS, despite political difficulties within and between its members as well as financial setbacks, has taken important measures to revive its integration process. This preoccupation has recently been instilled with a sense of urgency due to the acute apprehension in ECOWAS member States of the possible adverse impact of the consolidation of the single European Community market after 1992.

66. The 13th Session of the ECOWAS Summit met in May 1990 in Banjul (the Gambia) and adopted decisions to accelerate and intensify the ECOWAS integration process. The measures agreed upon in the Banjul Summit included: a time-table for creating a single monetary zone by 1994; the adoption of a common Residence Card giving ECOWAS citizens the right of residence in any member State and other measures to bring about free circulation of persons; and the creation of a guarantee mechanism for ECOWAS as the sole economic community in the region and consequential measures to rationalize and incorporate within ECOWAS all other West African intergovernmental organizations with similar or comparable goals. To that end, the Authority urged all member States to implement necessary measures to effect this decision and instructed the Executive Secretary of ECOWAS to prepare a flexible and pragmatic scheme of rationalization.

67. The Community is beset with the problem of the slow pace of ratification and low level of implementation of ECOWAS acts and decisions. Five factors impeding the implementation of ECOWAS decisions and acts as identified by the ECOWAS secretariat are: (i) the poor economic situation in West Africa during the 1980s which undermined domestic capital formation; (ii) strong national identity considerations which often impede regional integration efforts; (iii) low level of political commitment at the national level; (iv) lack of progress on the rationalization of intergovernmental organizations of which there are over 40 in West Africa; and (v) the inadequacy of institutional arrangements at national levels for handling ECOWAS matters. In order to resolve this problem, the Banjul Summit established 31 December 1990 as the deadline for the ratification of outstanding ECOWAS decisions and acts by member States.

68. The liquidity problems of member States has also adversely affected the payment of their financial contributions to ECOWAS. Despite campaigns to collect outstanding contributions and

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17 *Africa Research Bulletin*, Vol. 27 No.1, February 28, 1990.

the adoption of several measures against defaulting member States, have yield some results. Nonetheless, substantial arrears still remain. The old formula for contributions has been revised with the new formula taking effect in January 1991.

69. The Banjul Summit also agreed, with a view to promote ECOWAS and elicit public support for its objectives and programmes, to allocate 20 per cent of the official media in the member States to news on ECOWAS. The private sector has also been urged to improve dissemination of information on ECOWAS. An information policy and programme for ECOWAS is under preparation.

70. A Standing Mediation Committee of five member States, with floating membership, to facilitate amicable settlement of inter-state conflicts was also established.

71. In the wake of the internationally publicized scandalous incidents of the dumping of toxic industrial and nuclear wastes in the subregion, the member States adopted punitive legislation and also approved the creation of an joint monitoring and surveillance system called "Dump Watch." Thus the strong linkages between environment and development and the important role of regional co-operation to deal with the threats of environmental degradation is being recognized by ECOWAS.

6. Mano River Union (MRU)

72. MRU has initiated a number of actions that aim at strengthening co-operation in production, encouraging private sector participation in the integration process and strengthening the link between national and subregional economic integration policies.

73. In the area of production co-operation and greater industrialization, MRU is developing a subregional indicative programme to establish multinational joint venture enterprises (or Union industries) and to foster industrial complementarity. In this connection, the MRU secretariat has been undertaking the following major tasks; (i) updating the inventory of existing enterprises in member States, (ii) compiling an inventory of available agricultural, forestry, fisheries and mineral resources within the Union, (iii) identification of target joint venture industries, and (iv) the evaluation of the specific policies required for the implementation of the identified projects, particularly the legal and financial framework. Meetings of Chambers of Commerce and Industry of member States have been encourage to increase private sector awareness and participation in the development of Union industries. The Chambers of Commerce and Industry indicated their willingness to participate in Union industries by recommending, *inter alia*, that they be integrated into the policy making organs of MRU and that the subregional industrial development programme should cover also the local processing of agro-products such as coffee, cocoa and tea. A concrete example of industrial co-operation is the MRU project to manufacture mini-mobile palm oil mills using mainly locally available materials and private sector participation from the subregion. This project is being implemented with financial assistance from the African Development Bank of about US $ 1.08 million. Another practical move towards industrial co-operation and private sector involvement is the Air Mano project, which unfortunately - due to political problems in the region has not yet been implemented.

74. Efforts to bring about greater linkage in trade, monetary, industrial and pricing policies of the member States are also being made. The year 1990 was declared the "Year of Harmonization". There are moves to harmonize the structural adjustment policies, a joint approach to the utilization of external funds, develop co-ordinated approaches to the ACP-EEC Lomé IV Convention, and strengthen collaboration with ECOWAS and other intergovernmental organizations in West Africa so as to improve co-ordination of subregional integration efforts and joint programming of activities. Similarly, to enlarge the scope of co-operation, a multi-sectoral co-ordination, and inter-grouping meeting between MRU/ECOWAS/CEAO was also organized in August 1989 at which broad areas of concrete co-operation were agreed upon.

7. Preferential Trade Area for Eastern and Southern Africa (PTA)

75. The issue of the distribution of costs and benefits between the more advanced and less advanced member States of PTA has been a major obstacle that still remains to be resolved. Countries like Rwanda, Djibouti, and Comoros have argued that because of their low level of

development, their structures of production, commodity composition of exports, if any, they have little to gain from integration. Moreover, even if all the long-term potential gains of integration were to be realized their continuing disadvantaged postion would still make it impossible for them to derive an equitable share of the benefits to which integration would have given rise. These countries have, therefore, called for special compensatory and corrective measures to overcome their disadvantage position in PTA. A package of measures to confer special benefits to the relatively more disadvantaged countries is under study.

76. The involvement of the business community in the integration process is an area in which PTA has attained some progress. The business community, through the PTA Businessmen Association and PTA Chambers of Commerce and Industry (PTA/FICC), have been active in promoting intra-PTA trade. The PTA businessmen have organized several buyers and sellers meetings which have positive benefits. For example, a large volume of business was generated at a multi-product fair which took place in Harare (Zimbabwe) between Zimbabwean firms (buyers) and other PTA businessmen (sellers). The sellers that obtained the biggest orders from Zimbabwean buyers were from Kenya (Zimbabwe (Z) $ 39 million), Mauritius (Z $ 38 million), United Republic of Tanzania (Z $ 12 million), Zambia (Z $ 10 million), Malawi (Z $ 8 million), Burundi (Z $ 7.7 million), and Ethiopia (Z $ 1.1 million).[18] The PTA/FICC has sponsored several PTA Trade Fairs.

77. In industry, agriculture and energy a number of projects and programmes had been formulated and some have already attracted external funding. Furthermore a number of pipeline projects are at different stages of implementation. These included the immediate establishment of a Metallurgical Technology Centre to be housed in the Institute of Mining and Research in the University of Zimbabwe for the time being until a permanent facility is in place, also in Zimbabwe. The centre will support the mining industry in the exploitation of minerals.

78. In the transport sector, PTA activities focused on the removal of non-physical barriers to intra-PTA traffic and on the establishment of a multi-modal PTA transport network. An earlier decision that transit charges should be harmonized at US $ 4 per 100 km for heavy goods vehicles and at US $ 1.5 per km for others was reaffirmed. These charges become effective from June 1990. Zambia, United Republic of Tanzania and Uganda have announced the creation of a PTA airline.

79. The Ministerial Committee on rationalization of intergovernmental organizations recommended, *inter-alia*, the establishment of a Regional Co-ordination Commission (RCC) to review the work programmes of intergovernmental organizations in an effort to minimize duplication of activities and ensure concerted effort in the mobilization of resources.

8. Southern African Development Consultative Conference (SADCC)

80. SADCC, since its inception, has evolved through different phases. From the position of a group of "Front Line States", it became an arrangement for economic-cum-security co-operation. The commitments on regional integration and economic liberation were added so as to make the SADCC economies less dependent, particularly *vis-à-vis* South Africa.

81. SADCC's present institutional structure is both pragmatic and flexible. It has established sectoral commissions on energy, transport, agriculture, food security, livestock, fisheries, tourism, industry and trade, mining and manpower. The responsibility to co-ordinate each of those sectors has been assigned to designated member States, which have organized special administrative units within appropriate ministeries to service the sector allocated to them. Thus the administrative costs are shared without the need to create formal subregional institutions. A small secretariat based in Gaborone (Botswana) is for general servicing and liaison only. Not all SADCC member States are obliged to participate in a SADCC activity, or with the same intensity, which also allows greater flexibility in the implementation of co-operation activities.

82. To help implement the SADCC Action Programme,[19] Annual SADCC Consultative Conferences are held to secure financial and technical pledges from donors. At the 10th SADCC Annual Consultative Conference in February 1990, the World Bank announced a US $ 4 billion

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[18] See *Africa Research Bulletin*, Vol.25, No. 3, April 30, 1988.

[19] Under this initiative, sectoral programmes for an integrated regional development have clearly defined foreign and local component their financing.

development aid programme over the next five years.[20] Similarly, the United Kingdom pledged £10 million; this aid, however, carries commitments to undertake structural adjustment programmes. The European Economic Community has increased its aid to SADCC under the Third Lomé Convention to a total of ECU 141 million (US $ 171.5 million) for SADCC regional projects.

83. The Nordic countries are some of the most solid and consistent supporters of the SADCC. In 1986 they signed with SADCC a joint Declaration on "Expanded Economic and Cultural Co-operation" which has become known as the SADCC/Nordic Initiative. Its main idea is to increase the level of involvement of the Nordic countries in SADCC and to promote a more direct role for the private sector in the two regions. The capital of the NORSAD Fund (presently US $ 35 million), held in a trust fund in Copenhagen (Denmark), is administered by the NORSAD Fund headquarters in Lusaka. The main purpose of the Fund is to support private export-oriented companies in the SADCC regions, in particular those in joint-ventures with Nordic countries.

84. Initially SADCC emphasized transport and communication development with a view *inter alia* to reducing dependence on South Africa for transit routes. New directions to the SADCC integration efforts were given in the 1987 Annual Consultative Conference by adding investment, production and the promotion of enterprise. The development of enterprises and the need to enhance investment in production were focused upon in the subsequent years. The SADCC Consultative Conferences during 1987-90 emphasized upon building investor confidence by improving the investment climate and removing the internal constraints to investment in productive sectors, particularly, restrictive import licensing procedures, foreign exchange controls and excessive fiscal budget deficits.

85. This new emphasis placed the enterprise sector (both from within the region and outside) at the centre stage of efforts to promote investment, production and trade in the SADCC region. SADCC national business councils and the Regional Business Council are also functioning to involve the business community in the implementation of the SADCC programmes. Business conferences provide a forum for consultations between regional and interregional enterprises and between these and SADCC Governments. Such meetings review the constraints to investments and examine suitable measures to enhance the efficiency of investment.

86. In an effort to reduce the foreign exchange constraint on production, export pre-financing revolving funds have been set up by some member States to provide foreign exchange for the importation of essential production inputs. Studies have also been conducted on a regional "export credit facility" and the facilitation of "cross-border investment".

87. Industrial co-operation in SADCC has also been reappraised. The SADCC Council of Ministers in 1989 formulated and adopted a new SADCC industrial development strategy which aims at increasing substantially the manufacturing share of GDP in SADCC countries by the year 2000. The new industrial strategy seeks to promote the identification, formulation and implementation of sectoral and regional industrial projects embracing various forms of cross-border co-operation. It recognizes the role of the enterprise community and proposes arrangements for bringing together, through workshops and other means, representatives of selected enterprises and businesses for promoting business contacts and cross-border business ventures. The new industrial strategy emphasizes the rationalization, and possibly harmonization also, of national investment policies and mechanisms.

88. In the period ending 1988-1989, the SADCC region as a whole experienced a positive growth rate of 4.5 per cent after declining for most of the 1980s. This growth represented a real *per capita* income increase as it exceeded the region's population growth, which is growing at a rapid rate of 3.3 per cent per annum. This positive growth trend is expected to continue in the 1989-1990 period. The recovery in the economic performance of the SADCC region, however, is fragile given that it has resulted mainly from short-term phenomena, namely: (i) the short-term monetary and fiscal policy reforms undertaken by many SADCC countries during the 1980s; (ii) the upturn in the prices of a few commodities exported by a few SADCC countries, especially minerals such as copper (Zambia and Zaire) and diamonds (Botswana); and (iii) the increase in food and agricultural output due mainly to favourable weather conditions (rainfall).

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[20] See *Africa Research Bulletin Economic Series*, Vol. 27, No. 1, 28 February 1990.

89. In order to attain sustainable economic recovery and development, the SADCC efforts at overcoming fundamental structural constraints will have to be intensified. It was in this context that at its 10th Annual Consultative Conference in February 1990 the SADCC presented its theme, ***SADCC: The Second Decade - Enterprise, Skills and Productivity***. The theme emphasizes human resources development as the crucial aspect of an "enabling environment" that is required to facilitate and sustain SADCC endeavours at promoting investment, production and trade.[21] The emphasis on investment in human resources adds another new dimension of work into SADCC activities. The priorities issues to be addressed in this regard for the 1990s are: the scarcity of entrepreneurial talent, lack of an adequate stock of skills and low productivity.

9. Central African Customs and Economic Union (UDEAC)

90. In the "Yaoundé Declaration" adopted by the 24th UDEAC Summit of Heads of State in December 1988, the member States agreed *inter alia* to reorient UDEAC's integration strategy towards an emphasis on sectoral programmes and projects in which economies of scale can be achieved. The initial projects of this nature were to include a pharmaceutical industry in the Central African Republic, a veterinary school in Cameroon, a foodstuff factory in Congo and a telecommunications engineering school in Gabon.

91. The new emphasis in UDEAC on sectoral policies and projects received the support of the 25th UDEAC Summit which met in Bangui (Central African Republic) in December 1989. The Summit considered a number of sectoral project proposals, however, no definitive decisions were taken. The Summit also noted that enormous financial difficulties faced by member States will continue to adversely affect their capacity to support UDEAC projects.

10. Economic Co-operation Arrangements

92. The economic co-operation arrangements have been severely affected by acute financial difficulties arising from the non-payment of contributions by member States and the lack of external financing. They have thus, in recent years, been forced to scale down their activities and to seek financial resources.

93. The fight against drought, the promotion of a specialist Sahel Institute, and a multi-media regional information programme on environment are among the priority areas for the Permanent Inter-State Committee on Drought Control in the Sahel (CILSS). Despite having some external financial support, many of CILSS projects have not been implemented. The member States have also been slow in meeting their financial contributions to the organization and in this connection they have committed themselves to pay up their financial arrears to the organization by mid-1990.

94. The activities of the specialized institutions of the Council of the Entente have been reduced due to financial difficulties. The Mutual Aid and Loan Guaranty Fund for instance will support only two projects (village water supply and food production) for the time-being.

95. The activites of the Intergovernmental Authority on Drought and Development (IGADD) have also been constrained by lack of adequate financing. It has so far managed to implement only one project, namely, an early warning and teledetection system for monitoring crop conditions and food situations.

96. Most projects of the Organization for the Planning and Development of the Kagera Basin (OKB) lack funding. The few projects that are being implemented include a joint satellite communications scheme and a tsetse fly control programme. With a view to revitalizing the organization, the 5th OKB Summit in April 1990 in Bujumbura (Burundi) agreed to hold more regular high level meetings and actively to seek external financial support for its projects.

97. In the Lake Chad Basin Commission (LCBC), its 38th session in November 1989 adopted a master plan to conserve the resources of the Lake Chad basin. This policy shift towards conser-

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21 For more detail discuss see conference theme paper, SADCC, ***SADCC: The Second Decade - Enterprise, Skills and Productivity*** (Lusaka, SADCC, 31 January - 2 February 1990).

vation projects was seen as necessary in the light of worsening environmental degradation in the Lake Chad basin.

98. The Liptako - Gourma Authority has been considering a plan to construct a railway link between Burkina Faso and Niger.

99. The Niger Basin Authority has adopted a five-year plan of activities (1989-93) covering studies and preparatory work on the integrated development of the Niger basin.

100. The Gambia River Development Organization (OMVG) Organization will focus attention on only two projects in the immediate future; road construction in the Gambia and the construction of two dams on the Gambia river.

101. The Organization for the Development of the Senegal River (OMVS), following the completion of its second larger dam (the Manantali dam) in March 1988, is now focusing its attention on the ways and means of harnessing the dam to establish a hydro-electric power station. One of the major task involves securing the necessary funds for this activity.

B. Asia

102. The major economic co-operation and integration groupings in the developing Asia region include the Arab Co-operation Council, the Association of South-East Asian Nations (ASEAN), the Bangkok Agreement, the Co-operation Council for the Arab States of the Gulf (GCC), the South Asian Association for Regional Co-operation (SAARC) and the Economic Co-operation Organisation (ECO).

103. Recently, for the Asian and Pacific countries a regional approach, wider than the existing subregional schemes, appears to be gaining strength and viability. Co-operation on a broader regional scale has economic justification due mainly to the growing interdependence of the economies in the region. As the lead economies Japan and the Asian NICS are already transmitting growth impulses to the rest of the region. This has generated an accelerated pace of trade and investment regionally. Some of the ASEAN members are also showing their "growth inducing" potential, albeit on a lesser scale. The trend augurs well for the overall development of the region as well as providing wider dimensions to the integration process .

1. Arab Co-operation Council (ACC)

104. The Treaty establishing ACC was signed by the Heads of States of Egypt, Iraq, Jordan and Yemen Arab Republic on 16 February 1989, almost concurrently with the creation the Arab Maghreb Union. The ACC Treaty provides for the establishment of a permanent secretariat in Amman (Jordan) to assist ACC in promoting higher co-ordination and harmonization of major economic policies, particularly financial, customs, industrial, trade and agriculture. A major objective of these activities will be to create a common market.

105. ACC aims to be a more effective forum for economic co-operation and integration among the Arab States than previous such arrangements. Thus membership in ACC is open to other Arab States and geographical proximity is not necessary. Efforts to promote ACC co-operation, however, have been undermined by the recent political crisis in the Gulf region.

2. Association of South-East Asian Nations (ASEAN)

106. ASEAN economic co-operation process centres on the ASEAN Preferential Trading Arrangement (PTA), ASEAN industrial co-operation schemes and some monetary and financial instruments. To give new impetus to and enhance the performance of these co-operation mechanisms, new policy directives were adopted by the Third ASEAN Summit in December 1987.[22] These directives provided for an improvement of the ASEAN PTA between 1988 and 1992 through a substantial increase in the number of products items covered by the ASEAN PTA, the enlargement of the margin of tariff preferences offered to these products and the reduction of

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[22] These new initiatives are outlined in ASEAN, *Annual Report of the ASEAN Standing Committee 1987-1988* (Indonesia, ASEAN Secretariat).

non-tariff restrictions on intra-ASEAN trade. Between 1988 and 1989, ASEAN has made steady progress towards implementing the policy directives on the improvement of the its PTA (see paragraph 18 on page 7).

107. Regarding the industrial co-operation schemes, the Third ASEAN Summit adopted decisions aimed *inter alia* at encouraging greater private sector participation and investment in the ASEAN industrial joint ventures (AIJVs). The non-ASEAN equity ceiling was liberalized from 49 to 60 per cent (so foreign investors can acutally be the majority equity holder) for AIJVs which are approved before 31 December 1990. In addition, a pre-approved list of AIJVs is to be established in order to facilitate the submission and acceptance of AIJVs. In this connection, 13 AIJV projects have been included in the final list to be approved.

108. New progress has been achieved in other ASEAN industrial co-operation schemes. Under the Asian Industrial Projects (AIP) programme two UREA plants, one each in Indonesia and Malaysia, are functioning smoothly with sales made both to the regional and outside markets.

109. Under the ASEAN Industrial Complementation (AIC) scheme, five "Brand-to-Brand" proposals covering the production of motor vehicles submitted by the Mitsubishi Motor Corporation have been accepted by the ASEAN. The scheme is outlined in the table below:

TABLE 6

ASEAN BRAND-TO-BRAND MOTOR VEHICLE COMPLEMENTATION SCHEME

Scheme No.	Type	Model	Participating Countries
MMC-1	Passenger car	Lancer (LA/LM/C)	Malaysia, Philippines, Thailand
MMC-2	Light commercial vehicle	L 200 (PB)	Philippines, Thailand
MMC-3	Light commercial vehicle	L 300 (SK-KAI)	Philippines, Malaysia
MMC-4	Truck	Fuso (FM/FN)	Philippines, Thailand
MMC-5	Passenger car	Gallent (FY/H)	Philippines, Thailand

Source: UNCTAD secretariat.

110. Two other brand-to-brand complementation schemes, one for Volvo car model 740 (Malaysia and Thailand are the participating countries) and the other for Mercedez-Benz passenger cars (200E, 230E and 260E) and commercial vehicle (models OH 1625 and OF 1621) for Malaysia and Thailand have also been approved.[23]

111. Measures have been adopted by ASEAN to facilitate greater dialogue with the private sector of the region and to improve its participation in ASEAN meetings and activities.

112. ASEAN has developed an interesting feature for evolving co-operation with several countries and institutions in areas of mutual interests. Several agreements emerged through this co-operation with the so called "dialogue partner and their recent activities are reveiwed below:

(i) Under the ASEAN-Australia economic co-operation programme both parties have agreed to co-operate closely on the Uruguay Round negotiations and the international commodities issues. ASEAN agreed to consider the Australian proposal for greater Asia/Pacific economic co-operation (APEC).[24] Both parties have agreed to

[23] It has also been reported that Toyota Motor Company has plans to establish a complementation scheme to produce car components in Indonesia, Thailand, Malaysia and the Philippines. See ***Far Eastern Economic Review***, 21 September 1989.

[24] APEC was launched by a ministerial-level meeting in Canberra (Australia) in November 1988 with the objective of promoting continued economic growth through a structured process of constructive policy consultation.

eliminate obstacles to trade and investment relations, a major concern raised by ASEAN;

(ii) The ASEAN-Canada economic co-operation agreement envisages greater co-operation between the two countries in the Uruguay Round in the areas of agriculture and tropical products;

(iii) Under the umbrella of the ASEAN-EEC co-operation, the implication of the single European market after 1992 has taken up. The EEC position with ASEAN countries, and with all other developing countries, is that its 1992 programme would increase opportunities for ASEAN countries to enlarge their market share in the EEC market. ASEAN countries are concerned that the single European market might limit and reduce access by ASEAN exports to the European market. A two-day colloqium "ASEAN and Europe 1992 Implication and Resources" was held in July 1989 in Kuala Lumpur (Malaysia) for an exchange of views by both country groups. Despite the assurance from the EEC, ASEAN countries continue to view the Single European Act of 1992 with pessimism;

(iv) The recent meeting of the ASEAN-Japan Forum *inter alia* covered issues relating to the Uruguay Round;

(v) The ASEAN-New Zealand dialogue reviewed trade co-operation between the two parties. Concerned was expressed regarding the decline in ASEAN exports to New Zealand;

(vi) The ASEAN-United States co-operation in trade and development discussed several joint projects and the Uruguay Round;

(vii) In co-operation with the UNDP, ASEAN has submitted 4 project proposals for the Fourth Cycle; and,

(viii) ASEAN has been holding discussions with the Republic of Korea to strengthen bilateral relations through the establishment of a sectoral dialogue relationship. This will initially cover the sectors of trade, investment and tourism. The formal approval of this dialogue relationship will make the Republic of Korea, ASEAN's newest dialogue partner.

113. Other fields with substantial programmes of co-operation cover tourism, science and technology and the control of drug abuse and traffic. Many common projects have been launched in the fields of man-power development, education, arts and culture and social development. Those activities have helped to foster a better community awareness among ASEAN countries and their population.

114. ASEAN has also been active in political issues pertinent to its subregion.

3. Bangkok Agreement

115. The Bangkok Agreement which entered into force in 1976 was the first preferential trade agreement negotiated by the developing countries of the Asia/Pacific region. The five participating countries have since been implementing the various provisions of the Agreement and have periodically reviewed and renegotiated the preferential concessions.

116. The conclusion of the second round of preferential trade negotiations under the Bangkok Agreement (1985-90) resulted in an increase in the number and depth of preferential trade concessions (see paragraph 19 on page 7). In addition, the member countries agreed to embark on a new programme on other forms of trade co-operation which essentially aims at developing inter-enterprise co-operation through countertrade, the involvement of the business community in the process of trade negotiations, and the establishment of a regional investment information and promotion centre. The second round was aimed at increasing the number of countries in the Bangkok Agreement and, in this respect, Afganistan and Papua New Guinea have announced their decision to accede to the Agreement.

4. Co-operation Council for the Arab States of the Gulf (GCC)

117. In the economic domain the GCC member States signed an United Economic Agreement which, *inter alia*, provides for the promotion of economic integration among them in phases leading to eventual economic unity. Since then a number of measures have been adopted to harmonize various legal instruments, statistical systems and administrative rules and procedures. Intra-trade has been mainly liberalized and proposals have been made to introduce a common external tariff with a flexible band ranging from a lower limit of 4 per cent to a higher limit of 20 per cent.

118. GCC is presently negotiating with the EEC to establish a free trade arrangement (see paragraph 27 on page 9).

5. South Asian Association for Regional Co-operation (SAARC)

119. The Fifth SAARC Heads of State and Government Summit in December 1988 in Islamabad (Pakistan) extended the dimension of SAARC co-operation activities to cover trade, manufactures, services and education. With respect to the new trade sectors, several studies have been commissioned to identify, where feasible, specific areas which can be developed through joint co-operation.

C. Latin America and the Caribbean

120. The commitment of the Latin American and Caribbean countries to the revival of their regional integration process has been influenced significantly by, *inter alia*, the EEC 1992 process and the United States-Canada free trade agreement. These developments have in general enhanced the desirability of achieving free trading zones and have facilitated the launching of new initiatives to consolidate regional economic integration.

121. The new United States initiative, "Enterprise for the Americas", announced in June 1990, is another important development which is under careful study by Latin American countries in order to evolve adequate joint responses. This initiative is designed to promote investment, growth and debt reduction through three main activities: creation of free trade accords with Latin American countries, establishment of facilities to increase investment and provide official debt relief. The free trade association aspect of the United States new initiative is being welcomed by the countries of this region. Mexico is already negotiating a free trade accord with the United States. Argentina and Brazil have established a joint commission to analyse the United States initiative and the economy ministers of CACM countries agreed in August 1990 to consider it. SELA, which is studying this issue, in its initial reaction has identified some problems with this initiative: firstly, it has yet to be approved by the necessary policy and legislative bodies in the United States; secondly, the potential costs and benefits cannot be analysed until after the completion of the Uruguay Round of mutilateral trade negotiations; and, thirdly, there is no guarantee that both the United States and the Latin American countries will benefit equally, especially since the latter countries will be the weaker parties.[25] In the light of the weaker positions of the Latin American countries, a joint response would appear to be a necessary element of an adequate response by the countries of the region to this new United States initiative.

1. Latin American Economic System (SELA)

122. SELA activities in recent years have centered on implementing a work programme for the period 1989 - 1991 which was adopted by the Latin American Council, the policy-making body for the SELA, in September 1988 at its 14th session. The main elements of this programme cover external debt, industrialization, regional co-operation, technical co-operation among developing countries, international relations, finance and specific projects.

123. Concerning external debt, the Latin American Council in 1988 convened a regional conference on debt to take place in 1990. Following two preparatory meetings, the regional confer-

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[25] See *Latin America Weekly Report*, (20 September 1990).

ence was held in Caracas in June 1990. It adopted a resolution resolving the Latin American countries to approving a "Latin American and Caribbean proposition for a solution to its external debt problem." The proposition presents guidelines for concerted actions by countries of the region on significantly reducing resource transfers abroad and finding a durable solution to the debt problem.[26] The Latin American Council has also instructured SELA secretariat to put into effect a Latin American and Caribbean programme on the collection, elaboration and distribution of information on external debt and technical co-operation between countries of the region on this issue. The implementation of this programme is to be supported by Latin American integration groupings and agencies of the United Nations.

124. Concerning international relations, SELA has promoted regional consultation and co-ordination among its member States on regional wide issues such as those regarding the Uruguay Round and the the recent United States initiative. With respect to the Uruguay Round, SELA organized several meetings, seminars and workshops on the theme for its member countries with the assistance of national, subregional, regional and international institutions. In the Uruguay Round itself, SELA has devoted particular attention and furnished technical assistance to its member States covering the multilateral negotiations on trade in services.

125. In the area of basic commodities, SELA continued to support the establishment of the Common Fund for commodities[27] and the advancement of international agreements on commodities.

126. Regarding South-South co-operation, SELA has continued to monitor closely the developments in relation to the Global System of Trade Preferences among Developing Countries (GSTP).[28]

2. The Latin American Integration Association (ALADI)

127. The formation of an area of economic preferences has been a major objective of ALADI and in this connection ALADI States have established 104 commerical agreements; 40 of these agreements are past agreements of the Latin American Free Trade Association that have been renegotiated under ALADI; 27 of them are partial commercial agreements; concerning new economic complementation agreements, 14 relate to trade, 1 to the agricultural sector, 1 to tourism and 1 to the cultural, education and scientific sector; and the remaining 20 commercial agreements are signed with other non-ALADI member countries of the same region.

128. In recent years, there has been a marked movement from the traditional ALADI objective of an area of economic preferences towards free trade areas. The creation and consolidation of bilateral and trilateral trade and economic agreements among ALADI countries, for instance, have increased. In late 1989 Argentina, Mexico and Venezuela, three important ALADI member States, agreed to reduce substantially barriers to mutual trade by 1992. The main aspects of this agreement involve an alignment of quantitative restrictions and a common tariff rate of 40 per cent; the tariff duty will be gradually reduced to zero per cent. This trilateral trade liberalization initiative encouraged ALADI to enhance regional trade liberalization (see paragraph 20 on page 7).

129. The Argentine-Brazilian integration process, which was launched in 1986, has been consolidated and strengthened when the presidents of the two countries agreed in July 1990 to establish a common market between them by 1995. This decision may affect the Treaty of Integration, Co-operation and Development that was enacted into law by the two countries' respective Congress in August 1989, and which provided for the creation of a free trade area by the year 2000. The new agreement implies, firstly, that the free trade area would have to be realized in a much shorter period than originally envisaged and, secondly, that the attainment of a common market is now the major objective. Several measures aimed at consolidating the bilateral integration process were also approved: (i) there are to be mutual tariff cuts on 350 manufactured goods; (ii) the list of foodstuffs at the aligned tariff rates will be doubled from the current level of 207 items; and (iii) ratification of the motor vehicle industry protocol hence allowing each country mutual

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26 The details of this proposition have been reproduced in General Assembly document A/45/334.

27 The agreement establishing the Common Fund entered into force on 19 June 1989.

28 For a review on the GSTP see Chapter IV of this report.

duty-free exports of 10,000 vehicles annually, beginning 1991.[29] This move towards freer trade coincides with the overall trend in both countries towards a liberalization of their trading regimes.

130. The bilateral and trilateral commercial agreements among ALADI member States, according to ALADI trade arrangements, would later be multilateralized at the regional level. Hence the recent trilateral trade agreement between Argentina, Mexico and Venezuela and the consolidation of the Argentine-Brazilian integration process could have major implications for the wider ALADI integration process.

131. ALADI member States have signed a resolution (No.14) to establish a regional programme for alleviating imbalances in intra-regional trade. This programme will determine the criterias which will clarify the situation of disequilibrium in member States and the procedures and measures to be adopted to remove the disequilibrium. Member States are being urged to take advantage of this programme.

3. Andean Group

132. The Andean Group suffered heavy setbacks arising from the serious liquidity problems of its member States during the years 1983 to 1986. The member States thus signed the "Quito Protocol" in May 1987 aimed at rejuvenating and reviving the Andean Group. This protocol, which entered into force in May 25 1988, made major amendments to the original Cartagena Agreement establishing the Andean Group. Its main aims were: to improve the institutional system; to harmonize gradually and progressively development plans and policies; to render more flexible industrial programming; to carry out a new programme in the agricultural sector; and to widen the integration process to the social sectors.

133. A major event since then was the Heads of States Summit in Galapagos (Ecuador) in December 1989. This Summit approved a Strategic Design for the Orientation of the Andean Group which establishes broad policy guidelines for achieving two main interrelated objectives; the consolidation of the Andean economic space and the improvement of the Andean Group's integration into the international economic system. Both objectives are to be achieved through specific actions designed to improve market integration (see paragraph 21 on page 8), transport and communications, production integration and scientific and technological development, capital flows, factor mobility and tourisim, the competitiveness of the Andean Group in foreign markets, the establishment of common positions on international issues and the advancement of regional unity. In the promotion of these measures, preferential treatment will be accorded to the economically less developed member States of the Andean Group.

134. The guidelines in the Strategic Design concerning the harmonization of economic policies are worth mentioning. Beginning 1990, the member States are to jointly set out the framework for exchange and monetary policies for gradual inclusion into national economic programmes. Furthermore, the Andean Group would take measures to establish a subregional information system for the co-ordination and consultation in exchange, monetary and financing and payments areas.

135. The Andean Group has started to take the necessary decisions to put into effect the Strategic Design. In May 1990, the Heads of State Summit decided to concentrate their efforts on working towards the formation of a common market, an event that would promote the consolidation of the Andean economic space. The implementation of this decision entails, *inter alia*, wider policy co-ordination and harmonization and an intensification of the Andean integration process. The Summit addressed these requirements by agreeing on:[30] (i) co-ordination of economic policy and foreign debt negotiation; (ii) establishment of a joint commercial and industrial policy; (iii) co-operation on energy policy; (iv) creation of a directly elected Andean Parliament to promote popular participation in the integration process; and (v) the scheduling of biennial (in lieu of the annual) Heads of State summits to ensure that the momentum generated regarding the revitalization and consolidation of the Andean integration process is maintained.

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29 For an analytical discussion on the genesis, evolution and evaluation of the bilateral integration process between Argentina and Brazil, see D. Chud novsky and F. Porta, "On Argentine-Brazilian Economic Integration," in *CEPAL Review*, No.39 (December, 1989).

30 See *Latin American Weekly Report*, 7 June 1990.

4. Central American Common Market (CACM)

136. CACM was one of the more successful economic integration grouping formed by developing countries. Following its establishment in 1960, it moved quickly towards achieving partial common market status by 1966. The subregional integration arrangements generated significant benefits to CACM countries in terms of intra- and extra regional trade expansion and industrial growth in the 1960s and, to some extent, in the 1970s. However, beginning in the early 1970s, the operations of CACM were jeopardized by a number of internal destabilization factors of which the most prominent was chronic intra-regional indebtedness. The difficulties faced by CACM were augmented in the 1980s following the severe severe balance-of-payments crisis experienced by the member States and the internal political problems. The combination of the internal and external factors have practically brought about the collapse of CACM and have also inhibited the attempts to revive CACM in the early 1980s. For instance, the intra-CACM trade continued to decline systematically up to 1988.

137. In recent years several new initiatives have been taken at the highest political levels to reactivate the Central American integration process. CACM countries, for instance, approved a Plan of Immediate Action in early 1988 whose main objective is the restoration of a common market in Central America.

138. To meet the liquidity crisis in CACM countries the Central American Bank for Economic Integration (CABEI) established, on a temporary basis, the Central American Fund for Economic and Social Development. A major purpose of this Fund is to attract contributions from third countries and in this connection Argentina, Mexico and Venezuela are already participating in the Fund.

139. Another revitalization measure has been the signing of bilateral agreements between CACM countries which provide for special trading arrangements such as barter and countertrade. Their aim is to preserve mutal CACM trade as far as possible.

140. CACM also solicited EEC support in the revitalization of its integration process, particularly concerning the removal of the main financial constraints on intra-CACM trade. In this connection, the "San José" VI Conference in Dublin (Ireland) in April 1990 resulted in the signing of the following economic agreements with the EEC:

(a) A financing agreement covering the first installment of a three-year programme to increase intra-CACM trade (ECU 120 million). The agreement is linked with a plan to liberalize regional trade, also within three years;

(b) An agreement in principle to set up a Honduras-Nicaragua special fund of ECU 30 million which will be used to strengthen the export capacity of the two relatively less developed members States of CACM; and,

(c) The EEC undertook to ensure that CACM exports to the single European Community market after 1992 are not unfavourably affected, especially with respect to trade in bananas.

141. More recently in August 1990 the economy ministers of CACM countries agreed to establish a free trading zone by 1992. This agreement has two significance; firstly, it is a concrete policy directive calling for fully liberalized intra-regional trade and, secondly, the setting of a target date in the very near future signals a sense of urgency and determination in the policy makers' perception regarding trade liberalization. Thus an intensification of trade liberalization efforts could be expected in the following two years.

5. The Caribbean Community (CARICOM)

142. Since 1986 CARICOM has devoted tremendous efforts to reactivating and consolidating the economic integration process in its subregion. In this connection, the 10th Meeting of the Conference of Heads of Government of CARICOM in July 1989 in Grand Anse (Grenada)

adopted several important policy decisions that will influence the revival of the Caribbean integration movement in the 1990s.[31]

143. One particularly important decision of the 10th Conference was the pledge to fulfill all the remaining obligations of the Treaty of Chaguaramas by July 1993. This decision is a practical expression of the now common view among CARICOM member States of the need to speed up the consolidation of their integration process towards the formation of a fully-fledge common market. The intensification of the Caribbean integration process is to be achieved through the implementation, over the coming years, of a number of measures also adopted by the 10th Conference (see box 1).

BOX 1

MEASURES FOR ADVANCING CARIBBEAN INTEGRATION

1. Putting into effect by January 1991 a common external tariff, rules of origins and a harmonized scheme of fiscal incentives.

2. Strengthening the national customs administration in preparation for the creation of a customs union.

3. The signing by all member States of the agreement establishing the CARICOM Industrial Programming Scheme (CIPs) by 30 September 1989.

4. Introducing the legislation required to give effect to CIPs and the CARICOM Enterprise Regime (CER), which is the legal framework governing the incorporation, legislation, operation and dissolution of a business undertaking designated as a CARICOM enterprise.

5. Putting into effect by 1993 a scheme for the free movement of capital between member States, starting with cross-listing and trading of securities on existing stock exchanges.

6. Technical work to commence immediately on the establishment of a regional equity/venture capital fund.

7. Strengthening the CARICOM Multilateral Clearing Facility.

8. Arrangements for closer consultation and co-operation on monetary, financial and exchange rate policies by July 1990.

9. The removal of all the remaining barriers to trade by July 1991.

10. Strengthening the mechanisms for promoting consultation, co-operation and coordination of policies at the macro-economic, sectoral and project levels.

11. Arrangement by January 1991 for the free movement of skilled and professional personnel within the Community.

12. Action to develop by July 4 1992 a regional system of air and sea transportation.

13. Action to strengthen collective representation in international economic negotiations and the sharing of facilities to this end.

Source: ***Regional Co-operation: Recent Developments***, No. 17, (July-December 1989).

144. A second major decision of the 10th Conference was the agreement to solicit actively the full support and participation of the peoples of the region in the process of integration in the 1990s. In order to effect this policy, the 10th Conference approved the establishment of a Commission of Eminent West Indians to undertake public consultation with all segments of the Caribbean society on the enhancement of people participation in the process of integration. This Commission has been established and it is required to present its report to the Heads of Government of CARICOM prior to their meeting in 1992.

145. In a related development, the 10th Conference appointed a ministerial committee (consisting of representatives from Antigua & Barbuda, Barbados, Jamaica, St. Kitts & Nevis and Trinidad & Tobago) to examine and make recommendations concerning the establishment and operation of an Assembly of Caribbean Parliamentarians. The Assembly is viewed as an important instrument for popular participation in the integration process. This Assembly will act as a forum for

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[31] For a complete description of the decisions of this meeting, see *Communiqué of the tenth Meeting of the Conference of the Heads of Government of the Caribbean Community, held at Grand Anse, Grenada, from 3 to 7 July 1989*. This communiqué has been reproduced in the United Nations General Assembly report A/44/477 (24 August 1989).

the deliberation of regional issues by the peoples' representatives, however, it will not have any legislative powers.

146. The 10th Conference also examined the implications for the Caribbean countries of the Single European Act of 1992. This development, the Conference noted, gave rise to some degree of uncertainty although the EEC has assured the developing countries that they will not be disadvantaged by the creation of a single European market. The Caribbean countries, like many other developing countries, are concerned that the single European market could undermine the future of major Caribbean exports such as banana, sugar and rum to the European market. The 10th Conference stressed in this conncention that an adequate response to the single European market will have to be the consolidation of the Caribbbean integration process and the adoption of co-ordinated national and regional policies.

147. In this connection also in November 1989, a special conference on "1992 and the Caribbean" was convened in Barbados. The special conference discussed the possible elements of a regional development strategy required to address the the likely challenges and opportunities that may arise from the single European market. The main message was that the development of a unified Caribbean market is a prerequisite for responding to the single European market and also for the long-term economic development of the Caribbean region. This approach, the special conference agreed, would entail developing a common regional strategy which provides for increased regional co-ordination of economic policy in three priority areas, namely, manufacturing, marketing and distribution, agriculture and diversification, and tourism, telecommunications and transport.[32] These proposals basically conform with the policy decisions reached by the 10th CARICOM Conference on the same issue.

148. The 10th Conference also referred a proposal for the establishment of a regional stock exchange to a committee of representatives of central banks and stock exchanges (currently existing in Jamaica, Trinidad and Tobago and Barbados) for an detail analysis. The committee will, *inter alia*, consider the question of linking up the existing stock exchanges in the region or alternatively to support a new independent regional stock exchange.

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32 See for further details, ***Regional Co-operation: Recent Developments***, No. 17 (July - December 1989).

Chapter IV

INTERREGIONAL CO-OPERATION

149. The co-operation arrangements reviewed below are by no means exhaustive. However, an attempt has been made to cover the most important interregional groupings and initiatives.

1. African, Caribbean and Pacific (ACP) Group

150. The European Economic Community and the ACP Group of countries, following 14 months of intensive negotiations, signed the Lomé IV Convention on 15 December 1989 in Lomé (Togo). The Lomé Conventions represent the most extensive economic co-operation arrangement between developed and developing countries. These Conventions link the developing country members of the ACP Group with the EEC in a special aid and trade co-operation arrangement. The various Lomé Conventions and the total development aid allocated under them by the EEC are outlined in table 7.

TABLE 7

LOMÉ CONVENTIONS

Number	Date	Number of countries	Total aid (ECU million)	
			EIB [a]	EDF [b]
1	April 1976	46	400	3 100
2	January 1981	57	700	4 700
3	May 1986	66	1 100	7 400
4	Spring 1990	68	1 100	10 700

Source: ***African Research Bulletin***, Vol.26, No.12, (January 31 1990), p. 9819.
a European Investment Bank
b European Devolpment Fund

151. The Lomé IV Convention which became effective in March 1990 maintains existing achievements and, in addition, contains some improvements.[33] Some of the salient features of this new ACP-EEC Convention are discussed below.

152. The duration and geographic coverage of Lomé IV have been enlarged. Lomé IV has a life span of 10 years, twice that of previous conventions. The accession of Haiti and the Dominican Republic to the Lomé IV Convention increases the ACP Group membership from 66 to 68 countries.[34]

153. The development aid package has been augment by about 41 per cent over the Lomé III level to ECU 12 billion (US $ 14.5 billion) for the first five years of Lomé IV. The monies will be administered by the European Development Fund (EDF) and the European Investment Bank (EIB), the two EEC institutions which disburse funds under the Lomé conventions. ECU 10.8 billion (US $ 13.1 billion) is earmarked for the EDF for development financing in the form of grants. ECU 1.2 billion (US $ 1.5 billion) is earmarked for the EIB for low interest rate loans on development projects. A new financial protocol will be negotiated for the second five years of Lomé IV.

154. The repayment requirement for financial assistance provided under the Stabex and Sysmin funds[35] have been abolished under Lomé IV. Hence financing provided under the Stabex and

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33 For a comparative analysis of Lomé IV vis-à-vis Lomé III, see E. Carrington and C. Katungi, "Lomé IV and Regional Co-operation," in ***Regional Co-operation***, No.17 (July-December 1989).

34 Namibia is also expected to join Lomé IV.

35 The Stabex and Sysmin funds are used to compensate losses suffered by ACP countries in exports of selected agricultural commodities (Stabex) and minerals (Sysmin).

Sysmin are now non-reimbursable. This innovation enlarges the grant element of EEC aid and contributes towards the promotion of non-debt creating financial flows.

155. In addition, the Stabex and Sysmin funds have been increased respectively to ECU 1.5 billion (from ECU 925 million under Lomé III) and ECU 600 million (from ECU 425 million under Lomé III). Moreover, the product coverage has been extended for both the Stabex list (to include cocoa powder, cocoa waste, cattle feed and octopus) and the Sysmin list (to include gold, uranium, bauxite and manganese).

156. Lomé IV also makes some headways in the area of trade. Forty ACP agricultural commodities have been accorded improved access to the EEC market. The most significant improvements were for rum, beef and veal.[36] Moreover, greater emphasis is to be placed on increased processing (increasing value-added) and diversification of commodities in ACP countries. The role of private sector investment (involvement) in commodity development is being underlined in Lomé IV. Similarly, the rules of origin requirements for entry into the EEC have been moderately eased. For example, for some products, the percentage of value-added has been lowered.

157. The development of the service sector and trade in services is a another area in which ACP-EEC co-operation will be developed. The negotiations on specific measures in this area will be carried out after the Uruguay Round of multilateral trade negotiations are concluded.

158. One new feature of Lomé IV is the inclusion of provisions on environmental protection. For instance, provisions under the heading "environment" provide for a ban on the transportation (directly or indirectly) of toxic wastes and radioactive wastes to the ACP States. These provisions stipulate the adoption of necessary internal legislation to implement these undertakings.

159. Another improvement in the new Convention regards the further strengthening of the EEC's stand on regional co-operation. Lomé IV clearly states its support for regional economic co-operation and integration among the ACP Group countries. In addition, the Convention provides for ECU 1.25 billion (11.6 per cent of EDF resources) to be used for regional co-operation activities. Other provisions have been made to promote, facilitate and strengthen the design and implementation of economic co-operation and integration projects and programmes. It can therefore be expected that the EEC, through Lomé IV, will be an important source of financial and technical support for the revitalization and consolidation of the economic integration process of developing countries in the 1990s.

160. Lomé IV will support the structural adjustment efforts undertaken by ACP Group countries. It allocated financial aid of ECU 1.15 billion (10 per cent of EDF resources) in support of structural adjustment projects and programmes of ACP countries. In line with the new emphasis on regional co-operation, structural adjustment projects of programmes that are regional in character and which could realize economies of scale will be favoured. Regional economic co-operation and integration groupings of ACP Group countries will have the role of designing and implementing regional projects and programmes.

2. Organization of the Islamic Conference (OIC)

161. OIC was established to co-ordinate the socio-economic development of its member states through economic and technical co-operation. Trade co-operation is a major area of concern for the OIC. It is therefore worthwhile to mention some of the main characteristics of OIC intra-trade.[37] Firstly, OIC intra-trade accounts for around 10 per cent of total OIC trade. In 1987, the share of OIC intra-trade was 10.8 per cent, which was worth about US $ 17 billion (see table below). Secondly, trade among the OIC countries is dominated by a few products, in particular oil products and gas. However, manufactured products, especially chemicals and textiles, are beginning to account for a growing share of OIC intra-trade. Thirdly, the Islamic market is important for those countries that are not the "most integrated" in the OIC intra-trade. For instance Djibouti, Somalia, Republic of Yemen, Jordan, Lebanon and Sudan export around 30 per cent of their total exports to other OIC countries; however, their share of OIC intra-trade is low (ranging around 5 per cent in 1987).

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[36] See for more details E. Carrington and C. Katungi, *op.cit.*, p.6.

[37] Based on information provided by the ICDT on OIC trade in 1987, the latest year for which reliable data is available to the ICDT.

TABLE 8

INTER-ISLAMIC TRADE, 1986 - 1987

(Exports in US$ millions)

Year	Inter-Islamic	Total	Inter-Islamic share (%)
1986	16 213	145 375	11.1
1987	17 639	164 263	10.8

Source: Islamic Centre for Development of Trade, ***Inter-Islamic Trade: Annual Report 1988/1989***, (Organization of Islamic Conference).

162. Many of the important recent activities of the OIC were in the area of trade co-operation. The OIC Long-Term Trade Financing Scheme went into operation in 1988. Its purpose is to promote the exports of non-traditional goods among OIC countries. The facility provides trade financial for periods ranging from between 18 to 60 months for intra-OIC exports. Member countries are required to contribute a minimum of 1.5 million SDR to this facility. Over 20 countries have joined this facility and over half of them have contributed the prescribed minimum financial contribution or more. Within the first two years of its operation, this facility approved 43 projects worth US $ 83.6 million.

163. OIC has also authorized the Islamic Development Bank to finalize studies relating to the establishment of an Export Credit Insurance/Guarantee Scheme. This scheme would cover both exports and investments and it would be located in the Islamic Development Bank.

164. Regarding preferential trade, OIC adopted in October 1990 a Framework Agreement for the establishment of a Trade Preferential System among OIC member States (TPS/OIC). Under the Agreement, once approved by the OIC Summit and ratified by 10 countries, trade negotiations are to be launched.

165. With a view to improving information on trade of Islamic countries, OIC aims to establish a Trade Information Network for the Islamic Countries (TINIC). In this connection, a feasibility study on TINIC has also been prepared by the Islamic Centre for Development of Trade.

166. Islamic Trade Fairs are held every two years and they are among the main trade promotion activities of the OIC.

167. Under General Assembly resolutions, Co-ordination Meetings between the OIC and the United Nations system, provide an important avenue for the co-ordination of activities in different priority fields of co-operation. The last such meeting was held in September 1990 in Vienna where, *inter alia*, several priority areas including trade for UN-OIC co-operation were discussed and upon which agreement was reached.

3. Global System of Trade Preferences among Developing Countries (GSTP)

168. An important landmark in the efforts of developing countries to revive and strengthen South-South trade is the entry into force in April 1989 of the Agreement on the GSTP after 15 States signatories to the GSTP Agreement had deposited their instruments of definitive signature or ratification. There are presently over 30 developing countries that have ratified the Agreement on the GSTP and have become full participants.

169. The GSTP establishes a global framework and principles for the exchange of preferential trade concessions, among member countries of the Group of 77, on all types of products (commodities and manufactures) in their raw, semi-processed and processed forms. The first round of negotiations for the GSTP was completed with the adoption of the Agreement on the GSTP by the Ministerial meeting of the Group of 77 held in April 1988 in Belgrade (Yugoslavia). The bi-

lateral concessions on tariff and non-tariff restrictions exchanged by participating countries were multilateralized on a most-favoured-nation basis for all the participants. Preparatory work for the second round are currently being undertaken.

4. Group for South-South Consultation and Co-operation

170. The Ninth Conference of the Heads of States and Government of Non-Aligned Countries held in Belgrade in September 1989 established a Summit -level Group for South-South Consultation and Co-operation. The membership of the Group consists of Algeria, Argentina, Egypt, India, Indonesia, Jamaica, Malaysia, Nigeria, Peru, Senegal, Venezuela, Yugoslavia and Zimbabwe. The Group will serve as a forum for consultations among developing countries and will formulate specific programmes of co-operation among them. The Group will also review the state of the world economy, suggest strategies for developing countries to cope with the emerging challenges as well as propose initiatives that might be taken in South-South and North-South forums. The Group will be served by a small permanent secretariat.

5. Afro-Arab Co-operation

171. In 1977, an Afro-Arab Summit was held to consider ways and means to develop and strengthen co-operation between countries of the two regions. However, very little was done in this regard in subsequent years. Recently, the finance ministers of both regions met in September 1989 and made an attempt to revive this initiative. The ministers reviewed the statues of a new institution to promote and guarantee Afro-Arab investments. The institution will have a capital of US $ 500 million.[38]

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[38] *Africa Research Bulletin*, (30 September 1989).

ANNEX A

TREATY INSTITUTING THE ARAB MAGHREB UNION[39]

His Majesty HASSAN II, King of the Kingdom of Morocco,

His Excellency ZEIN EL ABIDIN BEN ALI, President of the Republic of Tunisia,

His Excellency SHADLI BEN JEDID, President of the People's Democratic Republic of Algeria,

The leader of the Great first of September Revolution, Colonel MUAMMAR KADDAFI, the Great Arab People's Socialist libyan Jamahiriya, and

His Excellency Colonel MUAWIYA ULD Sidi AHMED TAYEA, Chairman of the Military Committee for National Salvation and Head of State of the Islamic Republic of Mauritania,

- Having faith in the strong ties based on common history, religion and language that units the peoples of the Arab Maghreb,

- In response to the deep and firm aspirations of these peoples and their leaders to establish a Union that would reinforce the existing relations and provide them with the appropriate ways and means to gradually proceed toward achieving a more comprehensive integration among themselves,

- Conscious that this integration will have effects that will enable the Arab Maghreb Union to acquire a specific weight allowing it to make an effective contribution to world balance, to the consolidation of peaceful relations within the international community and to the establishment of security and stability in the world,

- Aware that the institution of the Arab Maghreb Union require tangible achievements and the setting up of common rules embodying the effective solidarity among its components and ensuring their economic and social development,

- Expressing their sincere determination to make the Arab Maghreb Union a means for the construction of total Arab Unity and a starting point for a wider union comprising other Arab and African countries,

Have agreed on this following:

Article 1 By virtue of this Treaty, a Union, to be called the **Arab Maghreb Union**", is hereby instituted,

Article 2 The Union aims at: Strengthening the ties of brotherhood which link the member States and their peoples to one another; Achieving progress and prosperity of their societies and defending their rights; Contributing to the preservation of peace based on justice and equity; pursuing a common policy in different domains and, Working gradually towards achieving free movement of persons and transfer of services, goods and capital among them.

Article 3 The common policy referred to in the previous Article aims at reaching the following goals:

(a) In the international field: to achieve concord among the member States and establish between them a close diplomatic co-operation based on dialogue;

(b) In the field of defence: to preserve the independence of each of the member States;

(c) In the economic field: to achieve industrial, agricultural, commercial and social development of member States and take the necessary measures for this purpose particularly by setting up joint ventures and working out general and specific programmes in this respect;

(d) In the cultural field: to establish a co-operation aimed at promoting education on its various levels, at safeguarding the spiritual and moral values emanating from tolerant teachings of Islam, and at preserving the Arab national identity, and to take the necessary measures to attain these goals, particularly by exchanging teachers and students and creating joint university and cultural institutions as well as joint institutions specialized in research.

Article 4 The Union shall have a Presidential Council composed of the Heads of State of the member States and constituting the supreme authority of the Union.

Article 5 The Presidential Council of the Union shall hold its ordinary sessions every six months; it may hold extraordinary sessions whenever deemed necessary.

Article 6 Only the Presidential Council shall have the authority to take decisions, and its decisions shall be taken unanimously.

Article 7 The Prime Ministers of the member States, or their homologues, may meet whenever deemed necessary.

Article 8 The Union shall have a Council of Foreign Ministers which shall prepare the sessions of the Presidential Council and look into the points submitted by the follow-up Committee and the specialized minister al Committees.

Article 9 Each State shall appoint a member of its ministerial Council, or General Popular Committee, to be in charge of Union Affairs; these appointees shall form a Committee for the follow-up of the affairs of the Union and shall submit the results of their proceedings to the Council of Foreign Ministers.

Article 10 The Union shall have Specialized Ministerial Committees set up by the Presidential Council which shall determine their tasks.

Article 11 The Union shall have a General Secretariat composed of one representative for each member State; the General Secretariat shall exercise its functions in the country presiding over the session of the Presidential Council under the supervision of the Chairman of the session whose country shall cover the expenses involved.

Article 12 The Union shall have a Consultative Council comprising ten members of each State, to be chosen by the legislative bodies of the member States or according to the internal system of each State

The Consultative Council shall hold an ordinary session every year as well as extraordinary session at the request of the Presidential Council;

The Consultative Council shall advise on all draft decisions handed over to it by the Presidential Council, as it may submit to the Presidential Council any rec-

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39 This unofficial english version of the Treaty was provided to the UNCTAD secretariat by the AMU.

ommendations it might consider likely to strengthen the action of the Union and achieve its goals;

The Consultative Council shall elaborate its rules of procedure and submit them to the Presidential Council for approval.

Article 13 The Union shall have a Judicial Organ, composed of two judges for each State to be appointed by the State concerned for a six-year period, and renewed by half every three years. The Judicial Organ shall elect a chairman from its members for a one-year period;

The Judicial Organ shall specialize in examining conflicts related to the interpretation and implementation of the Treaty and the agreements concluded within the framework of the Union and submitted by the Presidential Council or any of the States parties to the conflict or as provided for by the Statutes of the Judicial Organ, the verdicts of which shall be binding and final;

Likewise, the Judicial Organ shall give advisory opinions on legal questions laid before it by the Presidential Council;

The Judicial Organ shall elaborate its Statutes and submit them to the Presidential Council for ratification. The Statutes shall constitute an integral part of the Treaty;

The Presidential Council shall determine the seat of the Judicial Organ and its budget.

Article 14 Any aggression directed against one of the member States shall be considered as an aggression against the other member State.

Article 15 Member States pledge not to permit on their territory any activity or organization liable to threaten the security, the territorial integrity or the political system of any of them;

They also pledge to abstain from joining any alliance or military or political bloc directed against the political independence or territorial integrity of the other member States.

Article 16 Member States are free to conclude any agreements between them or with other States or groups provided these agreements do not run counter to the provisions of this Treaty.

Article 17 Other States belonging to the Arab Nation or the African community may join this Treaty if member States give their approval.

Article 18 Provisions of this Treaty may be amended upon the proposal of one of the member States, and such amendment becomes effective after its ratification by all member States.

Article 19 This Treaty goes into effect after its ratification by the member States according to procedures in force in each member States,

Member States are committed to take the necessary measures to this end within a maximum period of six months from the date of signature of this Tready.

Done in the city of Marrakesh on the blessed day of Friday the tenth of Rajab 1409 of the Hegira (1398 of the Death of the Prophet), corresponding to 17 February (Nuar) 1989.

For the Kingdom of Morocco
HASSAN II

For the Republic of Tunisia
ZEIN EL ABIBIN BEN ALI

For the People's Democratic
Republic of Algeria
SHADLI BEN JEDID

For the Great Arab People's
Socialist Libyan Jamahirya
MUAMMAR KADDAFI

The President of the Islamic Republic
of Mauritania
MUAWIA ULD SIDI AHMED TAYEA